Confident Carlsson
Filling the hole in Sweden's finances
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Catching up
Asia's banks find the debt market
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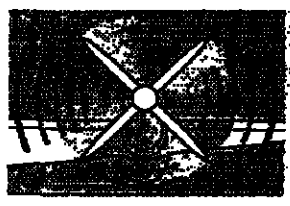

Sound of silence
Quieter aircraft with active noise
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Swiss banking
Separate sections

FINANCIAL TIMES

Europe's Business Newspaper — TUESDAY DECEMBER 6 1994 — D8523A

EU deal clears way for rescue aid to Ukraine

European Union finance ministers sent a belated signal of support for the reformist government in Ukraine with an agreement in principle to provide a loan of Ecu85m ($108m). The loan should pave the way for an international rescue plan to fill a potential $1bn gap in Ukraine's fourth-quarter balance of payments, which has threatened to reignite inflation and cut short energy imports this winter. Page 16; Ukraine wins nuclear guarantees, Page 4

Bentsen expected to resign

US Treasury secretary Lloyd Bentsen is expected to resign soon, administration sources said, in what would be a blow to President Bill Clinton as he deals with a Republican-run Congress. Mr Bentsen, 73, a former Democratic senator from Texas, called the reports premature but stopped short of denying them outright. Robert Rubin, a former Wall Street executive who heads the White House's National Economic Council, is a leading candidate to replace Mr Bentsen. Observer, Page 19

Wall Street underwriting fees hit: The fees Wall Street investment banks earn underwriting stock and junk bond offerings have fallen to record lows this year because of the sharp downturn in business activity, a report says. Page 19

South Korea to ease exchange controls: South Korea said it would ease foreign exchange controls by the end of the decade. The measure is more likely to benefit South Korean companies than foreign investors. Page 16

Peña visit to Taipei steps up US links: US transportation secretary Federico Peña visited Taiwan's foreign ministry in a sign of Washington's support for the island's democratic reforms and recognition of its economic importance. Page 4

South Africa plans bond offering: South Africa is to return to the international capital markets this week with the launch of its first international bond offering since the end of apartheid. Page 17; International bonds, Page 22

China pressed to improve transport: China must spend at least $111bn on upgrading its transport system by 2000 if it is to maintain its planned export-led economic growth, a report on the country's infrastructure says. Page 6; Chinese aircraft group turns to small cars, Page 20

Indian companies expect profits rise: India's top 25 private sector companies are expected to report net profits rising by an average of 60 per cent in 1994-95, with infrastructure and construction concerns leading the way, a survey shows. Page 20

Swapo poised to tighten grip on Namibia: Namibia's ruling Swapo party is poised to strengthen its hold on power this week in the country's first post-independence elections. Page 4

Arab world 'in environmental crisis': The Middle East and North Africa are in environmental crisis, with a quarter of the Arab world living without access to safe water supplies, Ciao Koch-Weser, regional vice-president of the World Bank, said. Page 4

Greek inflation rate falls: Greece's annual inflation rate fell to 10.3 per cent in October from 11 per cent the previous month, government statistics show. Page 2

Swedish insurer writes down US holding: Swedish insurer Trygg-Hansa confronted the full extent of its disastrous foray into the US market and said it planned to write down the value of its investment in Home Holdings by at least SKr2.8bn ($372m). Page 17

Risk management techniques underused: Only a minority of international companies using financial derivatives to hedge risks has adopted the most sophisticated risk management techniques recommended by leading banks and derivatives traders, a survey has found. Page 17

Credit demand stays at high level: Demand for credit among UK consumers eased slightly in October, but continued to run at a high level. Official figures suggest that finance houses took the biggest share of the business. Page 8

Teddy bear fetches £110,000: A teddy bear from the late Lt Col Bob Henderson's collection of 500 was sold at Christie's in London for £110,000, double the previous world record.

■ STOCK MARKET INDICES

FT-SE 100:	3,033.5	(+16.2)
Yield	4.25	
FT-SE Eurotrack 100	1,353.74	(+10.82)
FT-SE-A All-Share	1,507.65	(+0.4%)
Nikkei	19,395.66	(+307.36)
New York lunchtime:		
Dow Jones Ind Ave	3,732.88	(+7.06)
S&P Composite	454.04	(+0.74)

■ US LUNCHTIME RATES

Federal Funds:	5 7/16%
3-mo Treas Bills: Yld	5.891%
Long Bond	95 1/16
Yield	7.928%

■ LONDON MONEY

3-mo Interbank	6 1/16%	(same)
Liffe long gilt future:	Mar 101 13/32	(Mar 102 3/32)

■ NORTH SEA OIL (Argus)

Brent 15-day (Jan)	$16.15	(16.54)

■ GOLD

New York Comex (Feb)	$379.1	(378.0)
London	$376.7	(379.2)

■ STERLING

New York lunchtime:		
$	1.558	
London:		
$	1.5591	(1.5598)
DM	2.4542	(2.461)
FFr	8.4281	(8.4436)
SFr	2.0708	(2.0753)
Y	156.471	(156.599)
£ Index	80.1	(80.3)

■ DOLLAR

New York lunchtime:		
DM	1.57225	
FFr	5.3975	
SFr	1.3255	
Y	100.3	
London:		
DM	1.5741	(1.5778)
FFr	5.4058	(5.4134)
SFr	1.3282	(1.3305)
Y	100.36	(100.4)
$ Index	63.3	(same)

Tokyo close Y 100.54

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft 185	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL60
Cyprus	C£1.10	India	Rs60	Nigeria	Naira90	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 30	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.625	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (m'land)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Es225	UAE	Dh12.00

Yeltsin hits at Nato plan to expand eastwards

Europe could slide into 'cold peace', Russian leader warns

By Bruce Clark and Virginia Marsh in Budapest

President Boris Yeltsin, in a tough speech to a summit on European security, yesterday denounced Nato's plans to expand into eastern Europe and warned that the continent could slide from a cold war into a "cold peace".

In one of the most hard-hitting messages from Moscow to an international forum since the fall of communism, Mr Yeltsin said Russia was worried by Nato's enlargement programme, laid out in Brussels last week, and he poured scorn on the alliance's pledge to "export stability eastwards".

The Russian leader's message was in sharp contrast to that of US president Bill Clinton who, in a speech immediately beforehand, had hailed Nato as the bedrock of security in Europe, and emphasised that no country could exercise a veto on its expansion.

"If Nato does expand, so will security for all European states, for it is not an aggressive but a defensive organisation," Mr Clinton said.

Later, a senior US official said Mr Yeltsin had misrepresented western intentions.

The Russian leader called repeatedly for the Commonwealth of Independent States – the group of 12 former Soviet republics of which Russia is by far the strongest member – to be recognised as an international organisation that could guarantee security in the former Soviet Union.

The proposal – effectively a demand for the recognition of a Russian sphere of influence – was made at the Conference on Security and Co-operation in Europe, which groups 53 nations, including the US, Canada, most European countries and the former Soviet republics.

Mr Yeltsin described Russia as the "eastern buttress" of European security and stability. "Europe, which has not yet discarded the legacy of the cold war, risks plunging into cold peace," he told the meeting. "Russia respects the interests of all participants of the CSCE, and it expects its own interests to be taken into account."

In an implicit rejection of the Russian demand for supremacy within the former Soviet Union, both Mr Clinton and Chancellor Helmut Kohl of Germany spoke out against the notion that powerful countries could impose their will over smaller neighbours. Mr Clinton called for the CSCE to adopt rules "which can guard against the assertion of hegemony or spheres of influence".

Mr Yeltsin said Nato was engaged in a difficult search for a new role in the aftermath of the cold war. "It is important that this search should avoid creating poles of division, and that it brings European unity closer," he said. Moscow has repeatedly warned against Nato's expansion plans, under which Poland, Hungary, the Czech republic and Slovakia would join the organisation. Russia, however, would be excluded. "Why sow the seeds of mistrust?" Mr Yeltsin said. "We are not adversaries any more, we are almost all partners.

"We hear the explanation that this is an 'expansion of stability' in case of an undesirable turn of events in Russia. But, if for that reason they want to push the limits of Nato's responsibility to the borders of Russia, I will say one thing – it is too early to bury democracy in Russia."

The US official said: "The outside world is not giving up on democracy in Russia . . . and the process of Nato expansion is not rushing headlong anywhere."

Mr Yeltsin's words were a blow to US hopes that Nato could admit new members soon without upsetting Russia. In spite of Mr Yeltsin's harsh public words, he had a cordial 40-minute meeting with Mr John Major, the UK prime minister.

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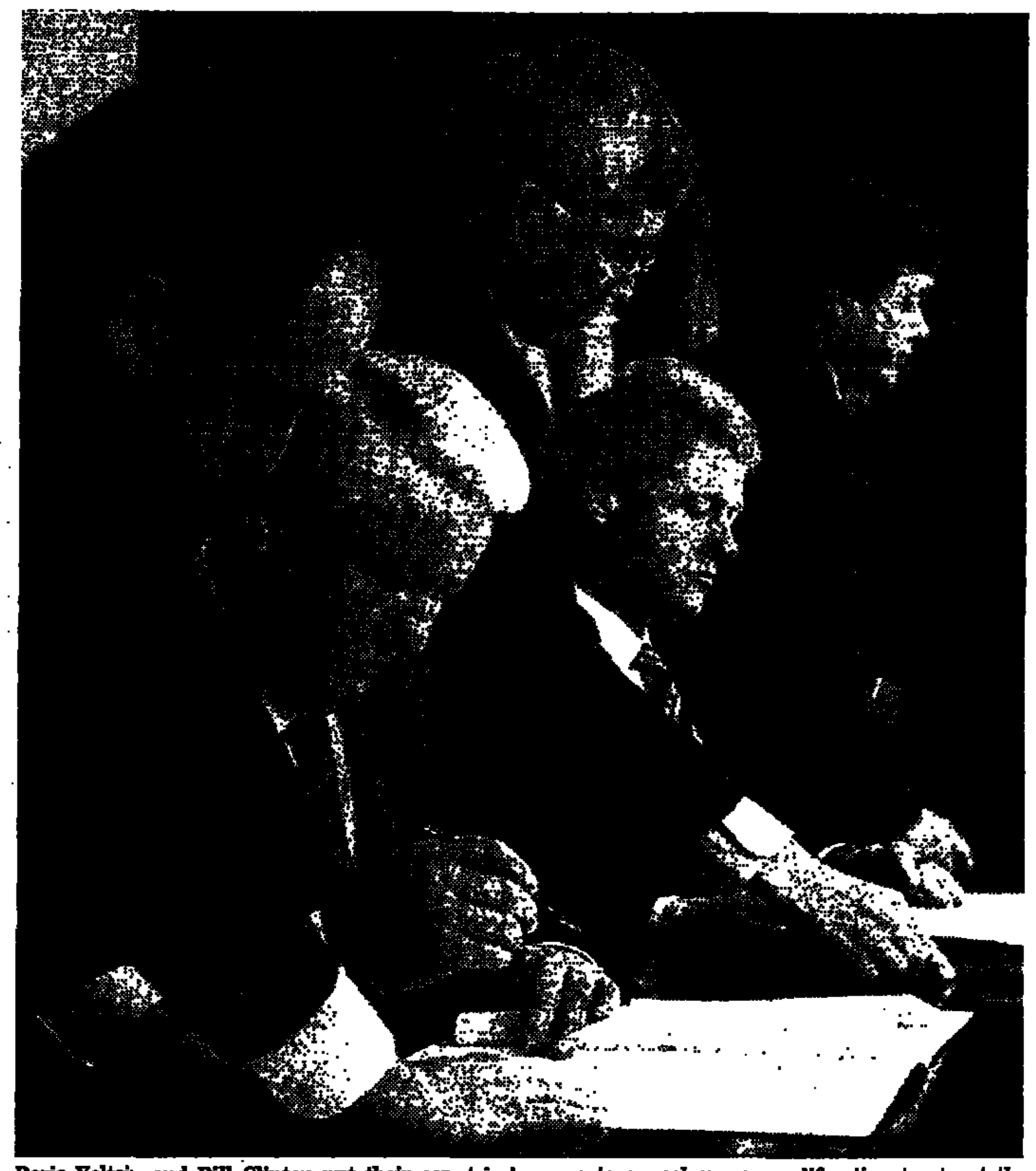

Boris Yeltsin and Bill Clinton put their countries' names to a nuclear non-proliferation treaty at the Conference on Security and Co-operation in Europe yesterday Picture: Reuter

Finance ministers keep EU currency plan alive

By Lionel Barber in Brussels

EU finance ministers yesterday left open the door for a single European currency in 1997 with a cautious endorsement of the current wide fluctuation bands in the exchange rate mechanism.

The 1997 date for the creation of a monetary union in Europe is still viewed as a remote possibility, but the decision in Brussels yesterday underlined political commitment to the project.

The 15 per cent fluctuation bands were introduced as a temporary measure after the currency crisis in 1992-93 which forced several devaluations and the departure of sterling and the lira from the ERM. The wider bands have so far helped to deter similar speculative assaults.

In a joint statement yesterday, EU finance ministers studiously avoided declaring that the present arrangements were "normal".

One of the key provisions of the Maastricht treaty is that a currency seeking to join Emu must have been inside its "normal" bands for at least two years to be eligible to join.

Instead, ministers agreed to endorse an opinion on the wide bands drawn up by the European Monetary Institute, the precursor of the future European central bank which is supposed to supervise the single currency.

The EMI noted that the wider bands had prevented large exchange rate depreciations and excessive intervention with potentially inflationary consequences. "In the light of this experience and in the current circumstances, the EMI council considers it advisable to maintain the present arrangements," Mr Theo Waigel, the German finance minister said.

Mr Waigel refused to say whether the 15 per cent bands would continue until a decision is made on whether to move to a single currency, or whether ministers would support a progressive narrowing of the bands.

Instead, he reaffirmed the need for price stability and sound public finances.

The other important criteria for moving to a single currency

Continued on Page 16

Bankers Trust agrees to derivatives checks

By Richard Waters in New York

Orange county........Page 5
Derivative users........Page 17

Bankers Trust, the New York based bank, has agreed with the Federal Reserve to impose tighter controls on parts of its derivatives business.

The Fed move, in the form of a so-called written agreement, is thought to be the most severe regulatory action taken against a big US commercial bank. It indicates mounting concern over the risks derivatives – financial instruments whose value is based in part on a conventional financial asset such as an interest rate or stock – might pose to the financial system.

Under the deal with the Fed, Bankers Trust said it would adopt controls on its leveraged derivative operations, at the centre of two lawsuits against the bank this year.

The value of these instruments moves disproportionately with movements in underlying securities or markets, making them among the most volatile and complex of financial instruments.

Mr Charles Sanford, the bank's chairman, sought to play down the significance of the accord with regulators. Pointing out that leveraged derivatives accounted for less than 5 per cent of the bank's revenues, Mr Sanford said Bankers Trust had already taken steps to counter any shortcomings in its controls.

A Fed official said regulators would use the agreement to keep a close watch on Banker Trust's leveraged derivatives business.

A Fed official said the action signalled the central bank's intention to keep a close watch on the leveraged derivatives activities of other US banks. "You can read this as a red alert for other players," he said.

Bankers Trust last month agreed a $14m settlement of a dispute over leveraged derivatives it sold to Gibson Greetings, a US greetings card company. The bank is still fighting a legal action brought by Procter & Gamble, which also lost money when US interest rates started to rise earlier this year.

The regulatory action requires Bankers Trust to improve controls on how it assesses derivatives for particular customers, how it markets them, what information it provides on their value as underlying markets move, and how it supervises the business.

The bank is also required to set up a special committee to monitor compliance with the Fed agreement, improve its training programme for sales staff and strengthen its auditing.

Bankers Trust is believed to be under pressure to agree similar actions with the Securities and Exchange Commission and the Commodities and Futures Trading Commission. A written agreement is a more severe step than the so-called "memorandum of understanding" which the Fed imposed on Citicorp after the US's biggest commercial bank ran into financial difficulties in the early 1990s. Citicorp was released from this agreement earlier this year.

Nafta set to begin talks with Chile over admission

By Stephen Fidler in London and George Graham in Washington

The leaders of the US, Canada and Mexico are expected to announce at the weekend that they will begin negotiations with Chile on its admission to the North American Free Trade Agreement.

The announcement is being planned for the last day of the Summit of the Americas in Miami, where President Bill Clinton is hosting a meeting of 34 heads of state and government from the region.

Officials involved in the presummit deliberations say the announcement would help to provide a symbolic climax to the meeting, which most Latin American governments believed until recently would yield little of substance. They say further talks are necessary before an announcement is certain.

Mr Mickey Kantor, the US trade representative, yesterday said: "Our goal is to have an interesting announcement on Sunday led by the President of the United States and involving Chile."

Nafta, which groups the US, Canada and Mexico in a free-trade zone, came into effect at the start of this year. The Clinton administration has often stated its aim of negotiating free trade agreements with other Latin American countries. But it has never specified a schedule.

The US had been unwilling to commit itself to extending Nafta before the ratification of the Uruguay Round world trade agreement by the US Congress last week. Trade officials from the three countries believe that unless agreement is concluded over Chile's accession next year, the process will become embroiled in the 1996 US

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NEWS: EUROPE

Centre-left alliances flourish as Forza Italia falters

Berlusconi hit by local polls

By Robert Graham in Rome

Results of week-end local elections have increased the fragility of Italy's right-wing government and turned the spotlight on the possibility of a centre-left coalition.

Centre-left opposition alliances won the mayoral races in the run-off for four out of six regional capitals, two of the regional councils and a majority of the small local administrations being contested.

Prime Minister Silvio Berlusconi's Forza Italia movement showed signs of having lost momentum and in the south the neo-fascist MSI/National Alliance surprised every commentator by the poor performance in its heartland. The most spectacular result was the defeat of the right by a centre-left coalition in the southern port of Brindisi and the province of Foggia.

Members of the government dismissed the outcome as insignificant voter discontent. But Mr Umberto Bossi, leader of the populist Northern League, said the outcome demonstrated his movement could no longer live with its partners in the right-wing coalition.

Although the elections involved fewer than 2m voters, all the political parties prepared for them as a big end-of-year test for the popularity of the Berlusconi government and the strength of the ruling alliance. The vote covered a cross-section of the country – from the rich industrialised north (Brescia, Treviso and Sondrio) to the centre (Pescara and Massa) and the South (Brindisi and Foggia).

The most interesting result was at Brescia, where Mr Vito Gnutti, the industry minister and League candidate, fell to Mr Mino Martinazzoli, the leader of the Christian Democrats who presided over their transformation into the Popular party (PPI). He gathered 56 per cent of the vote, backed by the PPI and a broad alliance of the centre-left.

This alliance included the former communist Party of the Democratic Left (PDS) and the Greens; but the high vote for Mr Martinazzoli indicated he had obtained the reluctant backing of Reconstructed Communism, formed from the rump of the old Italian Communist party.

Brescia now mirrors the fast changing political landscape. This wealthy industrial centre was a traditional Christian Democrat stronghold, until it was taken over by the League in the March general elections. Then in the June European parliamentary elections, Forza Italia won 30 per cent of the vote and cut the League from 25 per cent to 17 per cent.

The League vote held up in the first round of local elections two weeks ago; but Forza Italia fell back to 12 per cent, while the MSI was almost level with its government partner. With Forza Italia only giving half-hearted support to Mr Gnutti and the MSI boycotting him – both in protest over the League's "disloyalty" in government – his defeat was likely. But the margin was bigger than expected.

Mr Martinazzoli represented the left wing of the Christian Democrats and he has now become both the symbol of, and the laboratory experiment for, the PPI's new strategy of allying with the more powerful PDS.

Bossi: uneasy coalition

Ukraine signs up to treaty on nuclear non-proliferation

By Bruce Clark

Ukraine said last night it had won extensive guarantees from the US, Russia and Britain in return for renouncing any aspiration to be a nuclear power.

The published text of an agreement between the four countries suggested the pledges won by Kiev were little different from the standard promises made by nuclear countries to non-nuclear states under the terms of the Non-Proliferation Treaty, which Ukraine formally joined yesterday.

Western diplomats declined to comment on whether any private or informal undertakings had been given in addition to the published text. The accession of Ukraine to the NPT is a diplomatic breakthrough which clears the way for the Start-1 treaty, providing for the elimination of 9,000 US and former Soviet nuclear warheads, to enter into force.

The break-up of the Soviet Union left Ukraine with the world's third largest nuclear arsenal on its soil, and only last month did the Ukrainian parliament formally renounce the aspiration to wrest control of these weapons from Russia. Ukraine's adherence to the NPT was sealed during a European security conference in Budapest by Ukrainian President Leonid Kuchma and the leaders of the US, Russia and Britain, which were the original architects of the treaty.

President Kuchma thanked his three co-signatories for their understanding of the "unique situation" of the nuclear weapons in Ukraine and their "readiness to give security" to his country.

Under the published text of yesterday's deal, the US, Russia and Britain pledged to respect Ukraine's borders, to refrain from using or threatening force against Ukraine, and to seek help from the UN Security Council if Ukraine is threatened with nuclear aggression.

In an unusual declaration, reflecting Kiev's nervousness of Russian commercial power, the three co-signatories pledged to refrain from infringing Kiev's sovereignty through economic coercion. Russian foreign policy experts have called openly for the use of their country's superior financial muscle to take over as much as possible of the Ukrainian economy.

At the signing ceremony, President Bill Clinton hailed the "arrival of a new and safer era" in world affairs. "Ukraine has taken a bold move away from the nuclear precipice," he said. "The country's leaders have done a great service to their own people and the world."

EUROPEAN NEWS DIGEST

EU ministers challenge Delors

European Union finance ministers yesterday mounted a direct challenge to Mr Jacques Delors, the outgoing Commission president, by refusing to endorse the use of additional borrowed funds to pay for multi-million-Ecu cross-frontier transport projects.

Mr Delors has argued that without extra capital raised by the Union, most of the 14 ambitious infrastructure projects may not get off the ground. But ministers meeting in Brussels yesterday agreed that funding for each project should be tackled on a case-by-case basis using only private finance, national exchequers, loans from the European Investment Bank and designated EU funds.

The ministers' recommendations will be presented to the Essen heads of state summit later this week, along with a report on the so-called trans-European networks prepared by a group of experts. The British expert distanced himself from suggestions that the Union could agree in the future to new forms of financial support, a stance that was yesterday taken by Mr Kenneth Clark, the UK chancellor. *Emma Tucker, Brussels*

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Socialists snub Balladur reform

France's opposition Socialist party yesterday refused to be co-opted into accepting anti-corruption reforms by prime minister Mr Edouard Balladur, in advance of a forthcoming parliamentary debate on the issue. Socialist leaders boycotted a meeting of MPs which Mr Balladur called yesterday evening to discuss anti-corruption reforms, after which the prime minister was due to make a statement on national television. The opposition wants to remain free to insist during a parliamentary debate on Friday that the conservative government should reverse its easing of anti-corruption measures passed by its Socialist predecessor. Last Friday a special commission appointed by Mr Balladur recommended a total ban on corporate contributions to political parties, as well as a ban on politicians holding senior company posts and a series of measures to ensure fairness and transparency in the award of public contracts. *David Buchan, Paris*

ECONOMIC WATCH

Greek inflation falls to 10.3%

Greece's yearly inflation rate fell to 10.3 per cent in October, from 11.0 per cent the previous month, according to statistics service figures published yesterday. Monthly consumer prices rose 0.3 per cent in November because of higher prices for food, clothes and consumer durables. The government no longer expects to reach its target of single-digit inflation by December but last month's decline, together with delays in raising administered prices, makes it likely inflation can be held below 11 per cent this year, against 12.1 per cent in 1993. Greece's inflation rate is still more than three times the EU average. The government says its economic priority next year will be to bring it down to 7.8 per cent. *Kerin Hope, Athens*

■ Norway's overall GDP fell 0.2 per cent in the third quarter while mainland GDP – which excludes petroleum and shipping – expanded by 0.1 per cent. Exports grew by 0.3 per cent while imports were up 6.1 per cent.

■ German wholesale sales in October were down 3.0 per cent month on month, 1 per cent year on year, in unadjusted real terms.

■ Austria's current account deficit in September was Sch3.2bn ($300m) after Sch0.1bn in August and Sch0.9bn a year ago.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE: Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK: Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 Copenhagen-K. Telephone 33 13 44 41, Fax 33 93 53 35.

EBRD may finance Slovak N-plant

By Jane Martinson

The directors of the European Bank for Reconstruction and Development are to meet in London today to discuss financing a nuclear power plant in Slovakia. A final decision – due after 70 days of consultation – is set to be one of the most difficult in the bank's short history.

If the bank decides to provide 30 per cent of the DM1.3bn ($870m) needed to complete two partly-built reactors at Mochovce in Slovakia it would be the first time a multilateral development bank had agreed to finance a new nuclear plant. Previous development funding has concentrated on essential safety work at existing plants in eastern Europe.

The sensitivity of the project – a joint venture involving Electricité de France, France's state-owned generator, and Slovensky Energeticky, the Slovak generator – has encouraged the EBRD to launch a public participation process, and thus avoid any charges of lack of consultation. Today's meeting will be followed on Thursday by the publication of an environmental audit, part of the safety review, and a "least-cost" analysis which compares Mochovce, a Soviet-designed pressurised water reactor, with conventional gas-fired plants.

Opposition to the WWER 440/213 Soviet-designed pressurised water reactors is based on doubts about their safety and their economic viability. Environment groups such as Greenpeace and Global 2000 believe that more should be done to increase energy efficiency and that the cost of gas, supplied by Russia, is being overestimated. These groups presented a petition of over 100,000 names, mostly Austrian, to the bank yesterday.

Mr Heiner Loschin, the Austrian EBRD director, questions the safety costs of the project and is uneasy at the EBRD's involvement. "[The situation where] financial support is provided for highly subsidised electricity through an international organisation supposed to promote open-market economies is one I find very difficult to understand," he says. Mochovce lies around 120km east of Bratislava and 160km from Vienna.

Mr Thierry Baudon, the bank's deputy vice president, believes support for Mochovce is a difficult but necessary decision. Support for Mochovce can be "traded" for Slovak guarantees to close an older, more dangerous, pressurised water nuclear plant at Bohunice, he says. "You have got to ask why we are going through this nightmare when we could have cooked the figures to show that gas was more profitable... but we want to close Bohunice... and we would have had no leverage to close it down [without Mochovce]."

Mr Baudon recognises that the consequences of the loan may be difficult, however. "On economic, environmental and safety grounds I deeply believe that this is the right thing," he says. "Whether we should do it for the good of our image is a completely different matter."

Others feel less confident about the economic outlook for Mochovce. A study of two partially-built 440/213s in east Germany three years ago concluded that DM2bn would be needed to bring each unit up to acceptable safety standards. The government decided this cost could not be justified and the plant was never completed.

Mochovce is more than 80 per cent complete but has been mothballed for three years. Only a small proportion of the funds required to complete the plant would be spent on construction. The rest would be allocated to upgrading the reactors to acceptable safety levels.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.3	99.4	85.0
1987	105.6	100.7	103.9	96.7	76.2
1988	109.9	103.2	107.0	99.1	71.0
1989	115.2	108.5	110.1	101.1	74.9
1990	121.5	113.9	113.6	104.3	73.4
1991	126.6	116.3	117.3	107.8	74.2
1992	130.4	117.7	120.2	108.4	74.2
1993	134.3	119.2	123.1	107.7	76.6
4th qtr.1993	2.7	0.3	3.1	−1.7	76.7
1st qtr.1994	2.5	0.2	3.4	−1.0	77.0
2nd qtr.1994	2.4	−0.2	2.8	−2.3	75.8
3rd qtr.1994	2.9	1.3	2.8	−3.4	73.4
December 1993	2.8	0.2	3.7	−2.7	77.3
January 1994	2.5	0.2	2.8	−1.1	77.8
February	2.5	0.2	3.7	−0.6	77.0
March	2.5	0.2	3.7	−1.3	76.4
April	2.4	−0.4	2.8	−1.7	76.4
May	2.3	−0.4	2.8	−2.7	75.9
June	2.5	0.1	2.8	−2.8	75.1
July	2.8	0.6	2.8	−2.9	73.5
August	2.9	1.9	2.8	−3.7	73.9
September	3.0	1.4	2.7	−3.7	72.8
October	2.6	1.0		−2.2	71.6
November					72.1

■ JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.4	103.4	118.4
1987	101.2	92.5	103.1	100.6	122.9
1988	102.2	92.3	107.8	98.2	131.0
1989	104.9	94.2	114.0	95.1	123.5
1990	108.2	95.7	120.1	98.3	108.3
1991	111.8	96.8	124.3	101.8	114.8
1992	113.9	95.9	125.6	111.0	118.3
1993	115.3	94.3	125.8	116.9	134.0
4th qtr.1993	1.2	−2.1	−0.1	4.6	137.6
1st qtr.1994	1.4	−2.2	2.9	3.7	137.8
2nd qtr.1994	0.6	−2.1	5.0	0.0	139.9
3rd qtr.1994	−0.1	−1.7			140.8
December 1993	1.3	−2.2	−1.1	3.4	135.9
January 1994	1.4	−2.1	4.5	3.4	134.5
February	1.4	−2.2	1.8	5.1	139.4
March	1.3	−2.2	2.4	2.6	139.4
April	0.8	−2.2	1.9	0.9	141.2
May	0.6	−2.0	1.0	0.0	139.2
June	0.5	−1.9	9.1	−0.9	139.4
July	−0.3	−1.8	−5.2	0.8	142.4
August	−0.1	−1.7	−1.5		139.9
September	0.1	−1.5			140.3
October	0.8				139.5
November	1.1				140.6

■ GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.4	103.8	107.4
1987	100.1	95.0	107.7	107.1	110.9
1988	101.4	96.2	112.3	105.9	110.0
1989	104.2	99.3	117.3	108.0	107.8
1990	107.0	101.0	123.5	110.3	110.7
1991	110.7	103.4	131.2	115.0	108.2
1992	115.1	104.9	138.0	121.5	108.7
1993	119.8	104.9	145.7	125.9	110.2
4th qtr.1993	3.7	−0.2	n.a.	−1.7	108.9
1st qtr.1994	3.3	0.2	n.a.	−2.6	107.2
2nd qtr.1994	3.0	0.3	n.a.	−6.9	107.6
3rd qtr.1994	3.0	0.6	n.a.		109.7
December 1993	3.7	−0.1	-	−2.9	109.0
January 1994	3.5	0.0	4.9	−0.6	107.3
February	3.4	0.2	-	−4.8	106.6
March	3.2	0.3	-	−2.5	107.5
April	3.1	0.1	2.0	−6.7	107.0
May	3.0	0.4	-	−8.3	107.8
June	3.0	0.4	-	−7.7	108.4
July	2.9	0.4		−11.8	108.7
August	3.0	0.7		−5.4	108.9
September	3.0	0.7			108.6
October	2.8	1.0			110.2
November	2.7				110.1

■ FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.6	103.4
1987	105.9	97.8	107.8	103.0	104.8
1988	108.8	102.8	111.1	104.1	102.2
1989	112.6	108.4	115.4	105.2	99.8
1990	116.5	107.1	120.6	109.6	103.6
1991	120.2	105.8	125.8	113.4	102.3
1992	123.1	104.0	130.3	115.6	105.8
1993	125.8	101.1	133.7	118.1	108.5
4th qtr.1993	2.1	−2.2	n.a.	0.0	107.7
1st qtr.1994	1.7	−1.5	n.a.		107.5
2nd qtr.1994	1.7	−0.1	n.a.		107.4
3rd qtr.1994	1.6	1.9	n.a.		108.7
December 1993	2.1	n.a.	2.2	n.a.	106.6
January 1994	1.9	n.a.	–	n.a.	107.5
February	1.8	n.a.	–	n.a.	106.9
March	1.5	n.a.	2.1	n.a.	107.9
April	1.7	n.a.	–	n.a.	108.6
May	1.8	n.a.	–	n.a.	107.4
June	1.8	n.a.	2.4	n.a.	108.2
July	1.7	n.a.	–	n.a.	108.4
August	1.7	n.a.	–	n.a.	108.7
September	1.6	n.a.	2.4	n.a.	108.9
October	1.7	n.a.	–	n.a.	109.1
November		n.a.	–	n.a.	108.6

■ ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.6	106.5	102.0
1988	116.5	106.8	118.4	109.7	100.2
1989	124.2	113.1	125.6	112.3	103.6
1990	131.8	117.8	134.7	118.7	106.2
1991	140.3	121.7	147.9	131.2	105.5
1992	147.7	124.0	155.9	136.7	101.9
1993	153.9	128.7	161.3	139.3	87.3
4th qtr.1993	4.1	3.9	3.9	−1.5	85.7
1st qtr.1994	4.2	3.5	4.9		85.2
2nd qtr.1994	4.0	3.1	4.1		87.4
3rd qtr.1994	3.7	3.5			85.4
December 1993	4.0	3.7	3.7	n.a.	84.7
January 1994	4.2	3.5	4.0	n.a.	85.2
February	4.2	3.6	4.3	n.a.	85.5
March	4.2	3.2	4.5	n.a.	84.9
April	4.1	3.0	4.6	n.a.	87.5
May	4.0	3.2	4.6	n.a.	87.8
June	3.7	3.0	3.0	n.a.	86.8
July	3.8	3.2	3.1	n.a.	86.1
August	3.7	3.5		n.a.	85.0
September	3.9	3.8		n.a.	85.0
October	3.8			n.a.	84.7
November				n.a.	84.1

■ UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	104.1	94.2
1987	107.7	104.9	116.3	106.6	94.6
1988	113.0	108.7	126.2	109.5	102.3
1989	121.8	113.9	137.2	114.4	101.3
1990	133.3	121.0	150.1	122.7	102.6
1991	141.2	127.5	162.4	131.3	106.6
1992	146.4	131.5	173.1	133.9	103.5
1993	148.7	136.7	180.9	134.7	[illegible]
4th qtr.1993	1.5	3.9	3.9	1.8	97.2
1st qtr.1994	2.4	3.3	4.8	1.9	96.6
2nd qtr.1994	2.6	2.2	4.4	−0.2	97.0
3rd qtr.1994	2.3	2.1	4.4	−1.5	95.9
December 1993	1.9	4.0	4.0	1.4	98.0
January 1994	2.5	3.7	4.8	1.7	99.9
February	2.4	3.4	4.4	1.7	98.3
March	2.3	2.6	5.3	2.3	97.5
April	2.6	2.2	4.7	0.5	97.0
May	2.5	2.1	4.3	0.6	96.9
June	2.6	2.1	4.3	−1.5	97.2
July	2.3	1.9	4.2	−1.5	96.0
August	2.4	2.2	4.5	−1.4	96.8
September	2.2	2.3	4.6	−1.5	95.9
October	2.4	2.3			96.9
November					96.9

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Major says Bosnia war could spread

By Bruce Clark in Budapest

Mr John Major, the UK prime minister, said yesterday that a UN withdrawal from former Yugoslavia would have tragic consequences, including the probable spread of the conflict beyond the borders of Bosnia.

At the same time, British officials accompanying the prime minister to the European security summit in Budapest said a pull-out might become inevitable within a few weeks' time, because of the worsening conditions in the war zone.

"There will a tragedy if the situation on the ground makes it impossible for Unprofor (the UN protection force) to carry out its mandate and forces it to withdraw," Mr Major told fellow heads of government from more than 50 nations of Europe and North America.

British officials said they took some comfort from the fact that the presidents of Serbia, Croatia, and Bosnia had all, over the past 48 hours, assured the UK of their continued support for the UN's presence in the conflict zone.

The officials also reported signs of progress towards agreement on a Bosnia-wide ceasefire, seen as vitally necessary if a UN pull-out is to be averted.

At present, the Bosnian Serbs are pressing for an indefinite ceasefire while the Moslem-led government prefers a time limit on any truce. US president Bill Clinton appealed to the Bosnian Serbs to desist from aggression and enter negotiations on the basis of the internationally agreed peace plan.

"Settle your differences at the negotiating table, not the battlefield," he said in Budapest, reflecting Washington's new emphasis on a diplomatic approach to settling the Bosnian crisis.

> 'The whole of the international community, embodied in the UN and the mighty Nato, cannot save one endangered city'

Bosnian president Alija Izetbegovic struck a militant tone in his speech to the summit, denouncing the failure of all international organisations to deal with the conflict in his country and the Bosnian Serb assault on the northern enclave of Bihac.

"The whole of the international community, embodied in the UN and the mighty Nato, cannot save one endangered city," he said. He said the situation in Bosnia reflected the "hesitation, incompetence and sometimes ill will" of the west, and denounced Russia for supporting the Serbs at the UN. He said the result of the war would be a "discredited UN, a ruined Nato and demoralised Europeans".

The Bosnian leader said Paris and London had been described as "Serbia's protectors" because they had prevented all attempts to counter Serb aggression against his country. "No one can force our 150,000 soldiers to hand over their weapons," he added, calling the conflict a "war of liberation" which would not be lost. Mr Douglas Hurd, UK foreign secretary, said the Bosnian leader had adopted a more conciliatory stance in private.

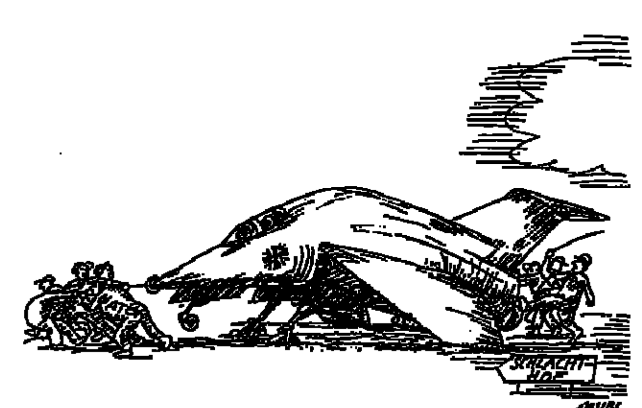
"I've just had the most constructive discussion I have ever had with President Izetbegovic," he told BBC radio. Mr Hurd said he and his French counterpart, Mr Alain Juppé, had on Sunday "rammed home" to Serbian president Slobodan Milosevic that he must do his utmost to ensure that the UN could continue to operate.

"Otherwise he will find that the UN will be forced to withdraw," he added.

See Editorial Comment

Germany to decide on Nato's request for jets

By Judy Dempsey in Berlin



A cartoon in the Süddeutsche Zeitung depicting German reluctance to support Nato in the Bosnian 'slaughterhouse'

The German government is expected to decide tomorrow how and when it will respond to a request from Nato for German Tornado fighter-bombers to back up airstrikes in Bosnia, officials said yesterday.

But the Nato request, made last week, has revived sharp divisions within the country's political establishment about what military role Germany should and can play following the end of the cold war and the unification of east and west Germany in 1990.

It has also rekindled memories of the second world war when Germany backed the fascist, or Ustasha regime in Croatia, and bombed Belgrade, the capital of Serbia.

Mr Helmut Kohl, the German chancellor, will discuss the request with Mr Volker Rühe, the defence minister, and Mr Klaus Kinkel, the foreign minister.

But officials yesterday said Mr Kohl's room for manoeuvre was limited because of the government's slim parliamentary majority as well as opposition within the cabinet to sending the Tornados. A spokesman for the Free Democrats (FDP), the junior partner in the governing coalition, and which holds the foreign ministry portfolio, said it was "highly sceptical" that either the government or the Bundestag would ever agree to send the Tornados to fly patrols over Bosnia.

In contrast to Mr Kohl's Christian Democratic Union (CDU), which runs the defence ministry, the FDP has staunchly opposed any active military role for Germany outside Nato territory.

Mr Karsten Voigt, foreign policy spokesman for the opposition Social Democrats (SPD), yesterday described the entire discussion as highly "irresponsible", given the political and military risks.

However, several commentators, including Mr Walther Stützle, the military expert and editor-in-chief of Tagesspiegel, said yesterday: "Germany apparently still believes it can take time to recover domestically [from unification] and overlooks the fact that a giant mess is brewing on its doorstep." Mr Robert Hetkämper, a commentator for ARD state television said: "If Germany refuses ... that could drive a deeper wedge in the alliance."

Nato asked Germany for the Tornados because, apart from the US, it is the only Nato country which has fighter-bombers equipped with Electronic Combat Reconnaissance devices, or ECRs. This military technology can neutralise surface-to-air missile launchers by jamming their radar systems.

But Nato diplomats yesterday said the request was made also in the knowledge that constitutionally Germany can now send troops out of Nato territory following a ruling by the constitutional court last July.

Since then, German pilots have manned the Advanced Early Warning Aircraft, or Awacs, which have monitored the no-fly zone over Bosnia.

CIS sends out deadly economic signals

High inflation and falling output are rampant, writes John Lloyd

The countries of the Commonwealth of Independent States continue to experience high inflation and falling production – the deadly mix of signals which point to incomplete economic reforms, or reforms barely attempted.

Probably dragged up by Russia's growing inflation in the autumn, inflation jumped sharply in October in nearly all the CIS states (the former Soviet republics except the three Baltic countries).

According to figures from the CIS statistical committee reported by Interfax, consumer price rises in October over September showed Georgia, one of the most desperate of the former Soviet states, suffering the highest price inflation, at 36.3 per cent – with the neighbouring Caucasian state of Azerbaijan in second place with 28.3 per cent, Belarus at 25.4 per cent and Kazakhstan at 24.8 per cent.

Russia, for which later figures are available, had inflation of just over 14 per cent in November, compared with 15 per cent in October – a reduction which was smaller than forecast.

The one country again to show growth in these figures was Armenia, the smallest of the three former Caucasian Soviet republics and the one most impoverished by the war with Azerbaijan over the enclave of Nagorno Karabakh. Its growth in gross domestic product of 1 per cent is, however, from an industrial base reduced to less than half of its Soviet-era capacity.

In most other states the production drops are in the order of 20-plus per cent for the 10 months of January to October compared with the same period in the previous year.

These figures are likely to be exaggerated, possibly by large amounts – since the Soviet era tendency was to exaggerate output to express conformity with the plan while the present tendency is to express low output to avoid taxes.

However, there is little doubt that the official figures measure a trend which remains downwards. Georgia is again the worst hit, with its already low level of industrial output down by a measured 42 per cent (figures January to September) – followed by Moldova, with industrial output down 31.1 per cent.

The basic distortion in the figures is because of the Soviet era habit of measuring only physical output. They thus do not capture, or at best inadequately reflect, the rise in services and trading. However, this rise has been most marked in Russia. In other ex-Soviet states, the figures of decline are probably closer to reality.

CIS GROWTH AND INFLATION

	GDP yr/yr	Consumer prices mth/mth
	(Percentage changes)	
Azerbaijan	-22.2 (1)	+28.3
Armenia	+1.0 (1)	+10.5
Belarus	-24.0	+25.4
Georgia	n/a	+36.3
Kazakhstan	-29.6 (1)	+24.8
Kyrgyzstan	-24.8	+3.4
Moldova	-29.7 (1)	+4.4
Russia	-15.0	+12.0
Tajikistan	n/a	+7.2
Turkmenistan	n/a	n/a
Uzbekistan	-6.9 (1)	+17.9
Ukraine	-24.3 (1)	+14.3

Notes: (1) Net material product. (2) Jan-Sept.

EUROPEAN NEWS DIGEST

Russia toughens Chechnya stance

Russia yesterday sent the three "power ministers" – the heads of internal affairs, defence and the domestic intelligence service – to the garrison town of Mozdok to supervise the continued build-up of men and arms on the border with the breakaway republic of Chechnya.

At the same time General Dzhokar Dudayev, the Chechen president, told the official Russian news agency, Tass, that he remained in favour of "negotiations on an equal basis with the Russian leadership" – an apparent demand to involve President Boris Yeltsin in the talks. This has already been ruled out by Mr Yeltsin's aides. Mr Vladimir Shumeiko, head of the Federation Council (upper house) said that the council would not discuss a state of emergency – threatened a week ago by Mr Yeltsin – until talks had been held. There are growing demands in Moscow for hostilities be put on hold in favour of negotiations. The Russian military and the secret services are being blamed for precipitating an abortive attack by the Chechen opposition on the capital Grozny 10 days ago – more than 20 Russian servicemen were taken prisoner in the action. Russian reports have alleged that the Federal Intelligence Service recruited a number of officers and non-commissioned officers from the élite Kantemirovskaya division to serve as advisers to the Chechen opposition forces. General Pavel Grachev, the defence minister, has denied any responsibility for the servicemen – but the commander of the Kantemirovskaya division, Major General Polyakov, said he had resigned over the issue. *John Lloyd, Moscow*

Yeltsin's men admit bank raid

Russian President Boris Yeltsin's security service admitted responsibility yesterday for a raid on a Russian bank. On Friday about 35 masked gunmen blocked off Most Bank's headquarters, next door to Russia's White House. A spokeswoman for the service said the forces were sent to investigate reports of heavily-armed men in a car belonging to Mr Vladimir Gusinsky, president of Most Bank. The security service gunmen barred entry to the building and searched cars belonging to the bank. Six drivers and security guards from Most Bank were detained, but later released. Mr Gusinsky said he would take legal action against the security service for "overstepping the bounds of power". *Moscow, AP*

SPD to boost presence in east

Germany's opposition Social Democrats (SPD) yesterday unveiled a programme aimed at re-building the party in east Germany and eroding the support of the reformed communist Party of Democratic Socialism. Mr Rudolf Scharping, the SPD leader, said the grassroots would be strengthened through creating local offices, co-operation with the trade unions, more travel by the federal leadership to the east and a training programme for local politicians. In October's federal elections, the SPD polled 31.9 per cent of the vote in the east, compared with 37.7 per cent in the west.
Judy Dempsey, Berlin

Soares in clash over Angola aid

Mr Mário Soares, Portugal's Socialist president, has clashed with the centre-right government of prime minister Aníbal Cavaco Silva over the issue of Angola, Portugal's former colony. Mr Fernando Nogueira, defence minister, tendered his resignation after Mr Soares vetoed the reappointment of General Narcisco Mendes Dias, air force commander, because of alleged military aid to the Angolan government. Mr Cavaco Silva rejected the resignation and officials described the president's veto as "deeply unjust". *Peter Wise, Lisbon.*

OECD warns New Zealand over inflation

By Peter Montagnon, Asia Editor

New Zealand is now reaping the benefit of the economic reforms introduced since the mid-1980s, but the challenge for policymakers will be to ensure that high growth does not lead to a resurgence of inflation or a deterioration in the balance of payments, the Organisation for Economic Co-operation and Development said yesterday.

Its latest survey predicted growth of 3.9 per cent this year and 3.5 per cent next, making New Zealand one of the fastest growing OECD economies, the report said. It was based on data available around mid-year, since when the economy has appeared to be growing even faster, prompting the Reserve Bank to tighten monetary conditions, most recently last week.

"The main challenge for policy now appears to be managing the risks associated with fast economic expansion, while enhancing growth and employment prospects," the report said. "Although the current monetary policy and labour market arrangements should reduce these risks, they have yet to be tested in a strong growth environment."

The task would be made easier if the current improvement in New Zealand's fiscal situation, which has seen the budget swing into surplus, were used to redeem government debt, the report added.

"The current speed of budget consolidation being probably the minimum required to ensure a balanced policy mix, a loosening of the fiscal stance risks placing undue pressure on monetary policy.

"A strong case can also be made for running budget surpluses in the medium term," it said, citing the need to reduce the level of net public debt relative to gross domestic product, "an area where new Zealand has performed badly by international standards."

New Zealand's high growth rate was finally starting to help reduce unemployment, but with the rate expected to remain over 3 per cent next year, there should be enough slack in the labour market to mitigate pressures on wage rates, the report said.

This should be consistent with inflation staying within the official target range of zero to 2 per cent, while the current account balance of payments deficit, which last year held roughly steady at NZ$41.65bn (£16.8bn) should decline.

The OECD said it expected the implementation of the Uruguay Round of world trade liberalisation to bring a one-off net gain to New Zealand of some 0.6 per cent of gross domestic product, largely as a result of increased world prices for its beef, dairy, forestry and fishing products.

Nonetheless, it noted that companies were reporting difficulty recruiting skilled labour and said New Zealand should undertake more micro-economic policy changes to enhance its international competitiveness. These included more effort to improve education and training, the reduction of tax distortions on investment and steps to improve competition in shipping across the Tasman Sea.

It also recommended further changes in the operation of New Zealand's producer boards, which are responsible for marketing its primary products. "One change providing minimum disruption, but potentially large gains, would be the transparent separation of the boards' regulatory and commercial functions," the OECD reports said.

More transparency in farmgate prices would also provide a better indication of the marginal costs and benefits of production, it added.

OECD Economic Surveys, New Zealand. OECD, , available from 2 rue André Pascal, 75775 Paris Cedex 16, France. Subscription price $200

NEW ZEALAND'S ECONOMIC OUTLOOK

	1993	1994*	1995*
	Annual % change		
GDP at constant prices	4.8	3.9	3.5
GDP price deflator	2.2	1.1	1.7
	%		
Unemployment	9.3	8.8	8.2
Short-term interest rate	6.3	5.5	5.9
Long-term interest rate	6.7	8.0	6.2
	% of GDP		
Current balance of payments	-2.1	-1.1	-0.4

*Forecast — Source: OECD

Peña's Taipei visit boosts US ties

Peña: risk of provoking China

By Laura Tyson in Taipei

Mr Federico Peña, US transportation secretary, yesterday called on Taiwan's foreign ministry, the first US cabinet official to do so in 15 years in a sign of Washington support for the island's democratic reforms and recognition of its growing economic clout.

Mr Peña visited Mr Fredrick Chien, foreign minister, stepping up bilateral ties despite previous objections by China, which views Taiwan as a rebel-held province. The meeting was significant as Beijing tolerates economic ties but frowns on those carrying diplomatic import.

The Clinton administration official is visiting Taiwan at the invitation of the US-Taiwan Economic Council, a private business organisation. He is to meet Taiwanese President Lee Teng-hui, Mr Lien Chan, the premier, and other officials.

Washington severed diplomatic ties with Taipei in 1979 in favour of Beijing. The US has since maintained strong but low-profile informal ties with Taiwan.

On Saturday, Taiwan held elections for provincial governor for the first time and the first elections in three decades for city mayors. Pressure from the US Congress, supportive of Taiwan's democratisation, led the administration to upgrade ties in September, after the first review of Taiwan policy since 1979.

Mr Peña is only the second US cabinet official to visit Taiwan since 1979. Ms Carla Hills, then US trade representative, came to the island in 1992 but did not meet the foreign minister.

Mr Peña yesterday met American Chamber of Commerce members to discuss infrastructure projects in Taiwan. A high-speed railway, urban mass transit systems and a fourth nuclear power plant are among projects planned or under way. He also met Mr Vincent Siew, chairman of Taiwan's planning ministry.

Today he is due to witness a $226m (£141m) contract signing by Westinghouse Electric of the US and Taiwan's environmental protection agency to build two solid-waste incinerators on the island.

See World Stock Markets

Swapo aims to strengthen its grip on power

Namibia's ruling Swapo party is poised to strengthen its hold on power in the country's first post-independence elections this week and aims for a big enough majority to allow it to change the constitution at will, Reuter reports from Windhoek.

Political parties and analysts say they expect Swapo to be re-elected with an increased majority in polls tomorrow and on Thursday.

"Opposition parties failed to unite around alternative ideas and policies during the past four years of democratic rule. They are in disarray," said Mr Andre du Pisani, a political scientist at the University of Namibia. "Swapo could well win two-thirds of the votes, the requirement to unilaterally change the constitution."

The former guerrilla movement holds 42 of 72 national assembly seats, against 21 for the main opposition Democratic Turnhalle Alliance (DTA) and nine for smaller parties.

In 1990, Swapo failed to win the two-thirds majority needed to write the new constitution alone. The present constitution, negotiated with opposition parties, restricts President Sam Nujoma from seeking a third term.

"We must go for more than two-thirds majority," Mr Nujoma said. "Our slogan is 72 seats, all for Swapo." He and his colleagues would change some aspects of the constitution. "There are some clauses which favour opposition parties and we might want to get rid of those clauses," he said.

Political analysts say the DTA, which helped run Namibia during rule by South Africa, had since independence in 1990 produced no alternative policies or fighting spirit.

About 650,000 people are expected to vote in this week's presidential and parliamentary elections.

Arab world 'in pollution crisis'

By Mark Nicholson in Cairo

The Middle East and North Africa are in environmental crisis, with a quarter of the Arab world living without access to safe water supplies and a fifth in cities with "unacceptable" levels of air pollution, Mr Ciao Koch-Weser, regional vice-president of the World Bank, said yesterday.

He was presenting a 78-page World Bank environmental strategy plan to an annual meeting of Arab League ministers responsible for the environment. The bank was ready to double lending for environmental projects in the region to $1bn (£635m) a year, he said.

The report paints a grim picture of pollution in the Arab world, which it says costs Arab League states $10bn a year, or about 3 per cent of their combined gross domestic product, half of which is accounted for by the health costs of respiratory and other pollution-related diseases.

It says 60m Arabs have no access to safe water, nine Arab states are annually consuming more than 100 per cent of their renewable water resources, and 45m people live in cities with air pollution at least five times World Health Organisation-accepted levels.

The report urges Arab states to increase institutional structures to deal with environmental problems (only a handful of states have ministries for the environment, for instance), to cut energy and water subsidies, which it says amount to $25bn a year, and substantially to increase information and awareness about the levels and dangers of pollution. "This region is still quite far behind in terms of this awareness," Mr Koch-Weser said.

The bank puts the cost of properly addressing such issues at $6bn-$8bn for the Arab League states, which it says can be "paid for from domestic sources without substantial hardships". It suggests raised petrol taxes, pollution charges and more efficient pricing and cost recovery.

Unchanged policies, the report continues, would result in a 60 per cent rise in air pollution from vehicles alone and a 50 per cent rise in municipal solid waste and toxic pollution in the next decade. This would double present health costs attributable to pollution.

In Cairo alone, according to Mr Bjorn Larsen, a World Bank environmental economist, lead pollution levels are at present 2-10 micrograms per cubic metre, against WHO acceptable levels of 0.5-1 mcg per cubic metre.

About 80 per cent of lead pollution comes from vehicle emissions in Cairo, where the vehicle stock is on average 15 years old and the estimated health cost of this pollution is estimated at 7 US cents per litre of petrol.

Middle East and North Africa Environmental Strategy: Towards Sustainable Development. 78pp. The World Bank, 1818 H Street, NW, Washington DC

Israelis debate peace accords

By Julian Ozanne in Jerusalem

A political debate about the viability of the existing Israeli-Palestinian peace accords is under way in Israel as both sides get set to resume talks in Cairo today on extending Palestinian self-rule to the Israeli-occupied West Bank.

Several Israeli ministers have expressed reservations about continuing to implement the so-called Declaration of Principles, which sets out interim phases leading to a permanent solution by 1998.

The next interim stage, at least nine months behind schedule, seeks Israeli troop redeployment out of Palestinian population centres by the eve of national Palestinian elections. Politicians and military experts believe it is almost impossible to redeploy troops and keep adequate security for the 150 Israeli settlements in the West Bank, home to 120,000 Jewish settlers.

The review of the declaration follows a warning from Israel's senior military intelligence chief that clear signs exist of "Lebanonisation" in the Gaza Strip, with armed militias poised to fight each other.

Some ministers favour regrouping settlements into blocks; others favour moving directly to talks about a final settlement with Palestinians, to decide a line of withdrawal including uprooting some settlements; some favour halting the process until the Palestinian authority can guarantee better security.

Mr Warren Christopher, US secretary of state, implied an impending revision of the process after he said at the weekend that adjustments might have to be made between the two parties. The cabinet will meet tomorrow in special session to continue the debate.

Palestine Liberation Organisation officials warned any unilateral change to the declaration of principles would kill the peace process, and accused Israel of using delaying tactics. Mr Ahmed Qurie, economics "minister", said any change to the principles should be made by negotiation.

At least five Israeli ministers who want to step up the pace of implementing the accords believe it is impossible to complete the next phase of the process without relocating at least some settlements.

Israel's Premier Yitzhak Rabin has so far ruled out quitting a single settlement ahead of a permanent solution. He has expressed reservations about the ability of the Israeli military to maintain security if it is forced to redeploy out of Palestinian centres such as Hebron, Nablus and Ramallah. The government has begun building roads to ensure settlers can avoid areas under Palestinian control. Some ministers believe such moves will not guarantee security.

Mr Moshe Shahal, police minister, believes redeployment can be completed without moving settlements into blocks. Mr Rabin has warned about reopening the agreement. The government is reluctant to hasten political conflict over removing Israeli settlements, which it wants to put off until after the 1996 Israeli general elections.

A Palestinian woman burns a US flag during a demonstration at Gaza City's Islamic University AP

Singapore opens up telecom service

Singapore is to liberalise the resale of public switched telecommunication services from next month, Reuter reports from Singapore. The Telecommunications Authority of Singapore (TAS) will allow companies to buy telecommunications services from Singapore Telecom, which dominates telecom and postal services on the island, and resell these services to their customers, Mr Leong Keng Thai, TAS policy director, said. The aim was to maintain Singapore's competitiveness. Public switched telecommunications services include international direct dialling and subscriber trunk dialling calls as well as data services such as facsimile and electronic mail.

The liberalisation of resale will introduce competition at the retail level for services currently under Singapore Telecom's exclusive licence, Mr Leong said. TAS had asked the company to develop a bulk discount scheme under which any reseller who has annual billings of a minimum S$150,000 (£65,000) would enjoy discounts from 2 per cent to 8 per cent.

TAS will first license the reselling of telecommunications services by hotels and service apartments from January 1 next year, he said.

INTERNATIONAL NEWS DIGEST

Lebanese PM to stay in office

Mr Rafik al-Hariri yesterday withdrew his resignation as Lebanese prime minister after talks in the Syrian capital Damascus brough a reconciliation with his rival, Mr Nabih Berri, the parliamentary speaker. Disagreement between the two led Mr Hariri to offer his resignation on Friday, plunging Lebanon into political uncertainty. In Damascus, Syrian officials said Hariri had decided to abandon his resignation attempt following the intervention of and would resume his work.

The two told Syrian President Hafez al-Assad, who had intervened to seek a solution, that they would put aside their differences over Lebanon's post-war reconstruction. They returned to Beirut last night. *Reuter, Damascus and Beirut*

India to probe spy scandal

Indian authorities yesterday stepped up their inquiry into a spy scandal which erupted last week at the heart of India's premier space organisation and threatens to jeopardise the country's missile programme. Two top scientists of the Bangalore-based Indian Space Research Organisation (Isro) were arrested by Indian police on suspicion of having leaked vital information on India's space programme. Detectives will also investigate Indian press reports hinting at the involvement of two unnamed west European countries. Bangalore's scientific community has reacted with shock at the arrest on November 30 of Mr Nambi Narayanan, deputy director of Isro's Liquid Propulsion Systems Centre. Mr Chandrasekharan, Indian representative of Glavcosmos, the Russian space agency, was arrested on November 3 for allegedly leaking defence secrets to two Maldivian women suspected of being spies.

India successfully launched a polar satellite launch vehicle in October. The space programme has powered ahead in spite of a setback last year when the US attempted to stop Moscow from going ahead with a $250m deal to provide India with cryogenic engines. The US said the engines could be used by India to launch missiles and would violate the Missile Technology Control Regime. Indian officials say Moscow was convinced by the US to suspend only the transfer of technology, and not the sale of engines. *Shiraz Sidhva, New Delhi*

Former prime minister resigns

Mr V.P. Singh, former Indian prime minister, resigned from parliament yesterday amid what his aides called frustration at political corruption and a big rift in his centrist Janata Dal party over economic reforms. But the 62-year-old Mr Singh, who led a minority government for 11 months after the 1989 elections, told a news conference he was quitting for personal reasons. Janata Dal aides said he was frustrated by parliament's handling of a financial scandal and frequent defections by his group's deputies, some of whom have crossed over to Prime Minister P.V. Narasimha Rao's Congress party.

Mr Singh is regarded as a supporter of sweeping free-market reforms that began in 1991 under Mr Narasimha Rao. He is seen as having carefully concealed his objections to the anti-liberalisation stance of his Janata Dal and Left Front partners. *Reuter, New Delhi*

Ro-ro ferry study agreed

Maritime representatives of more than 80 nations yesterday gave unanimous backing to proposals for the establishment of a special international panel to look at issues of roll-on roll-off passenger ferry safety. The panel, established at the suggestion of Mr William O'Neil, secretary general of the London-based International Maritime Organisation, will hold its first meeting on Saturday. It has been set up as a means of circumventing the IMO's sometimes lengthy procedures following the sinking of the ferry Estonia with the loss of more than 900 lives in September. *Charles Batchelor, Transport Correspondent*

Malaysian share investigation

Mr Otham Abdul, parliamentary secretary in the office of Dr Mahathir Mohamad, Malaysia's prime minister, told parliament yesterday that Mrs Rafidah Aziz, the minister of industry and trade, was being investigated over the allocation to her son-in-law of 1.5m of shares in a listed company. Mrs Rafidah is a leading figure in Dr Mahathir's cabinet. She has been at the forefront of Malaysia's drive to attract foreign investment. She has also been an outspoken critic of some western trading practices and has been a leading advocate of the idea, inspired by Dr Mahathir, of forming an East Asia Economic Caucus. *Kieran Cooke, Kuala Lumpur*

Vietnam to control air traffic

Vietnam will assume air traffic control over all civil flights in the Ho Chi Minh City area on Thursday for the first time since the end of the Vietnam War in 1975, government officials said yesterday. After the fall of the Saigon government in 1975, Hong Kong, Singapore and Bangkok took control of flights over former South Vietnam. Singapore transferred its area to Thailand in 1988, giving Bangkok full control of the southern part of the region. The International Civil Aviation Organisation decided last December to transfer the responsibility to Ho Chi Minh City after investment in communications equipment. *Reuter, Hanoi*

Vote for Tanzanian PM

Tanzania's national assembly yesterday endorsed by 165 votes to 42 the appointment of Mr Cleopa Msuya, former industry and trade minister, as prime minister by President Ali Hassan Mwinyi. Mr Mwinyi, under fire from international donors over a tax-evasion scandal, named Mr Msuya to succeed John Malecela as first vice president and prime minister after dissolving his cabinet on Sunday. Mr Mwinyi is under pressure from western donors who provide annual aid of $800m to sack Finance Minister Kighoma Malima over charges he failed to supervise efficient collection of taxes. *Reuter, Dar es Salaam*

Modernising India still hobbled by old divide

Mass education and the media have failed to stop a surge in caste-awareness, writes Stefan Wagstyl

The death of 120 demonstrators demanding Indian government recognition for their caste last month has come as a grim reminder of the grip of caste consciousness on Indian society.

The victims, including 30 children, were trampled when about 40,000 protestors from the Gowari caste clashed with police in Nagpur, in the western state of Maharashtra. They had gathered to demand their caste should be added to an ever-growing list of "economically- and socially-backward communities" entitled to preferential access to government jobs and college places.

Because of the tragedy, they got their way: the next day the Maharashtra state government acceded to their demands in an effort to quell the Gowaris' anger.

As India struggles to liberalise and modernise its economy, it is paradoxically passing regulations which encourage caste-based social divisions. Neither the growth of mass education, nor the relaying of modern values through radio and satellite television have been able to stop a noticeable upsurge in caste-awareness.

The danger is that the government will be distracted by the needs to buy off more and more caste-based communities to the detriment of social peace and economic efficiency. Mr Manmohan Singh, the finance minister, has warned that without faster economic growth India could be condemned to divisive arguments about sharing out the pie.

The roots of caste in India go back at least 2,000 years. The common explanation is that caste differences deepened when pale-skinned Aryans invaded India from the north and came to dominate darker-skinned local inhabitants, who were pushed south. A hierarchy emerged with *brahmins* (priests) and *kshatriyas* (warrior-landowners) at the top followed by *vaishyas* (merchants) and *shudras* (craftsmen). This left an underclass of labourers, who later became known as untouchables. Each level is subdivided into thousands of local communities, whose members support each other and tend to intermarry.

Although rapid urbanisation since independence has caused a blurring of caste divides in the cities, they persist even at the English-speaking university-educated pinnacle of society. Every Sunday, the Times of India, like other newspapers, lists hundreds of marriage advertisements arranged by caste, in which among the many attributes required of the ideal bride is "a wheatish complexion", that is, fair skin.

People from backward castes face invidious choices. They can accept their divinely-ordained lot, as most have done for generations. Or they can try to pass themselves off as upper caste in the hope of a good marriage, at the risk of discovery. Or they can do the opposite – exaggerate the degree of their backwardness to secure extra points in the complex and corruption-ridden affirmative action programmes which recognise no less than six different levels of "backwardness".

"Backward caste" protests are almost as old as caste itself, particularly in the south, where the low caste people are most numerous, forming up to 75 per cent of the Hindu population compared with a national average of about 52 per cent. Also the early arrival of Christian missionaries in the south helped to promote demands for equality and for positive discrimination.

The cause of the "backward castes" was taken up in earnest by Dr B.R Ambedkar, an untouchable who rose to be a minister in independent India's first government. His crusade failed to remove caste prejudice but it did secure a constitutional commitment for 22.5 per cent of government jobs and college places to be reserved for untouchables, the lowest of the low.

The quotas have since been expanded beyond the dreams of their original authors, notably in 1990 when the government awarded special treatment to a further 27 per cent of the Hindu population – the so-called "other backward classes."

Even though the Supreme Court then capped the total reservation at 50 per cent, politicians have bent the rules to win support from lower caste voters. Last year, the southern state of Tamil Nadu set a 69 per cent quota. Neighbouring Karnataka this year went for 73 per cent.

At the same time, the lower castes have steadily shed their deference for the ruling Congress (I) party, which has dominated Indian politics since independence, and organised their own parties. They first seized local assemblies in the south in the 1960s in Tamil Nadu and are now making inroads in the north.

Their biggest recent success has been in Uttar Pradesh, India's most populous state and cradle of its politics, where a combine of lower caste parties took power last year.

While these political gains have turned individual low caste leaders into well-known figures, they have yet to bring much benefit to their poverty-stricken followers. For example, although the 22.5 per cent quotas for the lowest castes has been in place since the 1950s, the actual share of government jobs is less than 10 per cent.

Mr Manuhara Prasad, director of the Ambedkar Foundation, a low caste lobbying organisation, says: "We are a ritualistic democracy not a real democracy."

So far, no low caste party has succeeded on the national stage. Linguistic and cultural differences limit their appeal. But their local power has undermined support for Congress. So Congress leaders have been forced to strike more and more political deals with lower caste leaders – exchanging tacit support in state elections for similar backing in general elections.

This has worked up to a point. But the result has been a sharpening of quarrels over quotas. In a country with a rapidly expanding population and only modest economic growth, that has proved to be dangerous.

مكررا من الأصل

Government hopes for world's largest-ever auction of public assets in wireless personal telecoms sell-off

US broadband licence bids start today

By George Graham in Washington

Bidding opened in Washington yesterday for what the US government hopes will be the world's largest-ever auction of public sector assets.

The Federal Communications Commission's auction of broadband wireless telecommunications licences could last for weeks, and some industry analysts have said bidding could go as high as $15bn.

The FCC will sell off 99 licences for a 30 megahertz wide frequency for wireless personal telecommunications services in 51 separate geographical areas, from huge markets such as New York and Los Angeles to the tiny territory of American Samoa. The third big auction of telecommunications frequencies the FCC has conducted, it is expected to be by far the biggest.

Earlier auctions of national and regional narrowband licences for advanced paging services raised bids of over $1bn. But Mr Reed Hundt, FCC chairman, says the broadband auction will launch an entire new industry that will provide the telecommunications services of the 21st century.

The FCC received initial applications from 74 companies, consortia and individuals to take part in the broadband auction, but only 23 stayed in the running when the time came to make refundable advance payments.

The size of each bidder's downpayment is calculated at 60 cents per person reached by the frequency and will determine the maximum size of market each can bid on.

The biggest applicant, a consortium grouping the long-distance phone company Sprint with Telecommunications Inc, Comcast Corp and Cox Enterprises, has put down $118m, which will allow it to bid on licences covering a total of nearly 200m people.

Other major bidders include long-distance phone giant AT&T, the Pacific Telesis local phone company and a consortium of three other Bell local phone companies. Mr Craig McCaw, who sold his cellular phone company to AT&T, will also be bidding for markets in which he knows he will not be competing against AT&T.

Applicants can bid in secret by computer, with one round of bidding a day. New bids must raise the price by at least 5 per cent, and each company or consortium must submit at least one bid in each round stay in the ring. But companies can change their strategy in mid-auction to target a different region if they see their first choice as too expensive.

Pensions body suffers $71bn funds shortfall

By Nancy Dunne in Washington

The Pension Benefit Guaranty Corporation, which guarantees the basic pension benefits of American workers, has a $71bn shortfall, a 34 per cent increase from last year.

The agency yesterday said that 8m workers and pensioners are covered by the underfunded plans. Some 75 per cent of the shortfall is in plans sponsored by prospering businesses. However, about $18bn of underfunding – covering 1.2m people – is in plans sponsored by companies with sagging bond ratings.

The underfunded plans are concentrated in a relatively small number of companies. More than half are large plans, primarily in the steel, vehicle, tyre and airline industries.

However, legislation to reduce the gap by more than two-thirds was included in the financing provisions of the General Agreement on Tariffs and Trade pact which won congressional approval last week.

The new legislation requires companies with underfunded plans to accelerate their funding and calculate required contributions according to government-approved methods. It closes a loophole that has allowed some companies to minimise pension contributions and requires companies which have severely underfunded plans to set aside enough cash and marketable securities to pay for at least three years of benefits.

Companies will be required to notify employees if pension plans are less than 90 per cent funded. The pension guarantee agency guarantees basic benefits of about 41m Americans. Its guarantee is limited to $2,556.82 a month, often less than the promised benefit.

Mr Robert Reich, the US labour secretary, headed a task force early in 1993 which examined the pension problem and proposed several solutions. "We can now begin to reverse the trend that posed a risk to workers and retirees," he said. "A solid pension will be part of the deal for workers who have counted on and earned the American dream of a secure retirement."

Quebec independence push clouded

Lucien Bouchard: out of political arena for several months

By Bernard Simon in Toronto and Robert Gibbens in Montreal

Fresh uncertainty has entered the debate on Quebec independence with the serious illness of Mr Lucien Bouchard, the separatist side's most popular and, arguably, most canny leader.

Mr Bouchard, who heads the Bloc Québécois, the party which represents the sovereignty cause in the federal parliament in Ottawa, is likely to be out of the political arena for several months. His left leg was amputated late last week in a bid to stop the spread of deadly necrotising myositis, also known as "flesh-eating disease".

The francophone province's newly-elected separatist government has indicated however, that Mr Bouchard's absence will not interfere with plans for an independence referendum during 1995.

The government is due to unveil part of its referendum strategy in Quebec's national assembly later today. It is expected to set up a public commission, which will ostensibly examine the benefits and costs of independence, but in reality will give the separatists a high-profile platform in the run-up to the referendum.

Doctors at St Luc Hospital in Montreal said Mr Bouchard entered hospital a week ago for treatment of phlebitis when the attack by the muscle-consuming bacteria was discovered. He remains in intensive care and will require several months of convalescence, they said.

Political analysts are unsure whether Mr Bouchard's brush with death will help or hinder the separatist cause. Some commentators predict his popularity will soar, much as President Ronald Reagan's did after an assassination attempt in 1981. Separatists have seized on the political nuances of a note which Mr Bouchard scribbled to his doctors: "Que l'on continue" (let us continue).

Others suggest, however, that Mr Bouchard's absence from the political scene for a prolonged period could harm the separatists' campaign. In particular, it is likely to blunt the Bloc Québécois' offensive in the House of Commons.

Mr Bouchard has generally been a voice of moderation in separatist ranks. His absence could thus bolster the influence of the more headstrong Mr Jacques Parizeau, Quebec's premier and leader of the provincial Parti Québécois.

Mr Parizeau pledged in last summer's election campaign that a separatist government would immediately declare Quebec's wish to begin talks on a split from the rest of Canada. But Mr Bouchard's calming influence appears to have persuaded the new government to hold off.

Orange County taxpayers face up to bad bet

Richard Waters on bond market gamble that could cost $2bn

The wealthy and very conservative taxpayers of Orange County, California could soon find themselves picking up the bill for what amounts to one of the biggest-ever mistaken bets on the direction of interest rates.

Late last week, investment officers in this prosperous area to the south of Los Angeles estimated that they were sitting on a $1.5bn (£910m) paper loss from their dealings in the bond markets this year. They tried to play down the scale of the disaster: this was only 7 per cent of the $20bn of investments the county controlled, they said.

> The case has turned into a political circus in latest test for the derivatives markets

In reality, things are much worse. The Orange County fund actually was worth between $7.5bn and $8bn and used what amounts to a form of borrowing to leverage up the value of investments under its control. The $1.5bn of losses (some on Wall Street say it is closer to $2bn) have cut the value of the fund to some $6bn-$6.5bn, a loss of a fifth or more.

Until Orange County actually sells the securities in its investment portfolio, these losses will not be realised. In the meantime, the case has already turned into a political circus, and is fast pitting politicians against Wall Street in the latest big test case for the derivative markets.

Ironically, for an area dominated by Republicanism, it took a Democrat to bring about this débâcle. Mr Robert Citron, the county's treasurer, is an elected official, in common with his counterparts in other counties in the sunshine state (but unlike much of the rest of the US.)

Mr Citron's – and Orange County's – problems stem from a mistaken bet on interest rates at a time when the US bond markets have suffered their biggest tumble in memory. After posting above-average investment returns for some time – Mr Citron's fund is generally estimated to have made around twice the return of most other bond funds in recent years – this marks an abrupt reversal of fortune.

According to an executive at one Wall Street firm which deals heavily with the county, the losses should be seen in the context both of the fund's previous good performance and "the biggest rout in the bond market's history". But none of that will come as much consolation to local taxpayers.

Mr Citron's strategy fell into two parts. First, to leverage his investments, he in effect borrowed about $12bn by using the securities repurchase market. This involves selling securities and at the same time agreeing to buy them back in the future.

The cash was then used to buy more securities, which in turn were sold in the repurchase (or "repo") market, and so on, until the fund's exposure reached $20bn. If the securities rose in value, the investment return was multiplied: but if they fell – which turned out to be the case – the losses were also leveraged.

The second part of the strategy was to use investment instruments which also accentuated the fund's exposure to the bond markets. Mr Citron is believed to have controlled between $7bn and $8bn of inverse floating rates notes (instruments which pay a higher investment return, the lower interest rates fall). These instruments have the same effect as using the "repo" market, leveraging the profits (or losses) from changing interest rates.

For Orange County taxpayers, the big question now is whether Mr Citron will be forced to liquidate some or all of his investments, and so turn the paper losses into real ones, or whether he is able to restructure the fund either to defer losses or to avoid having to take any losses at all.

Much will depend on the amount of cash at his disposal. The county invests funds on behalf of about 170 different public bodies – from cities to school districts and water authorities. It holds their surplus cash as well as tax revenue which it has collected and which it pays out to meet the operational needs of the different entities.

> The odds on the county treasurer's re-election have been lengthening fast

One local agency – the Irvine Ranch Water District, with $300m in the fund – is agitating hard to get its cash back, and is likely to be followed by others. According to Standard & Poor's, the US credit rating agency, about 40 per cent of the money in the fund can be recalled by the agencies concerned, while the rest must be invested in the fund under state law.

A second call on the fund's cash comes from the operating needs of the agencies concerned. The 37 school districts, which account for about 18 per cent of the value of the fund, need to pay teachers' salaries and other bills, and cannot wait for Mr Citron to work out a long-term plan for his fund.

The cash liquidity in the fund is already estimated to have fallen to $350m, from more than $1bn in September. If Mr Citron cannot keep his investors at bay, he will have to start selling securities and taking investment losses. But whatever happens, the odds on his re-election have been lengthening fast.

CONTRACTS & VENTURES

Bolivia, Brazil gas line tender

The state oil companies of Brazil and Bolivia have put out to international tender a contract to supply equipment and services for the planned Brazil-Bolivia gas pipe line.

Work on the first stage of the pipeline, from Rio Grande in Bolivia to Porto Alegre in Brazil, is expected to start next August. The project is expected to use 2,200km of pipeline and will cost $2.2bn.

The pipeline should provide income of $200m a year for Bolivia. The two companies have already selected a number of large international companies as strategic partners in the project. *Stephen Fidler, Latin America Editor*

■ Abu Dhabi is soon expected to award a contract to build a shipyard, a deal that could indicate which western shipbuilder would win a multi-billion-dollar order to supply frigates. Abu Dhabi has drawn up a shortlist to build the shipyard at a cost of about $200m to service warships and commercial vessels. and *Reuter, Dubai*

■ Rolls-Royce of the UK has won a $10m order to supply Tay engines for two Fokker 70 aircraft for Singapore Airlines offshoot Silk Air. *AFX, London*

■ Taiwan's Economics Ministry has signed a letter of intent with International Business Machines Corp (IBM) of the US to forge a strategic alliance, Taiwan's 21st such tie with foreign companies since February 1993. *Reuter, Taipei*

■ Whirlpool of the US signed an agreement with China's Snowflake Electrical Appliance Group to make refrigerators at a plant near Beijing. The $30m joint venture plans output of 500,000 refrigerators a year and hopes to boost that to 1m. Snowflake, China's oldest refrigerator factory founded in 1956, is building a new plant on the outskirts of Beijing. *Reuter, Beijing*

■ Thorn Transit Systems International of the UK, will be awarded a contract worth about HK$200m ($26m) to design, manufacture, install and commission an automatic fare collection system for the airport railway in Hong Kong. The 34km railway will provide two separate services, a fast passenger link to the new airport and a domestic service called the Lantau Line. *Foreign Staff, London*

■ Thomson Consumer Electronics, a unit of French state-owned Thomson, will open a plant at the Subic freeport and development zone in the Philippines making audio and communication products for the Asian and US markets. The plant, in the former US naval base, will employ up to 1,000 people. *Reuter, Manila*

US leads Gatt ratification rush

By Our Foreign Staff

Ratification of the Uruguay Round world trade agreement by the US Congress last week looks set, as hoped, to open the way to the rest of the world to follow in the next few weeks.

By yesterday, 42 of the 125 countries participating in the round had completed the national procedures needed to approve it. Officials at the General Agreement on Tariffs and Trade expect 100 to have done so by the end of the year.

Almost 50 are expected to have acted by Thursday, when senior trade diplomats meet in Geneva to confirm January 1 as the date when the agreement and the new World Trade Organisation come into effect.

No minimum quota has been set for the number of countries that have to ratify the deal before it can come into force. But it is generally accepted that, in addition to the US, they must include Japan and the European Union.

In Japan, the lower house of the Diet (parliament) ratified the agreement on Friday, as part of a clutch of trade bills which included a Y6,010bn (£38bn) spending package to help cushion the impact of farm trade liberalisation. The upper house is due to ratify at the end of this week, though this is a formality.

The EU Council of Ministers plans to ratify the agreement and approve legislation to implement it at a two-day meeting starting on December 19. That will follow expected

Each EU country must approve

approval of the agreement by the European Parliament next week.

But because of the ruling by the European Court last month that the agreement involves "mixed competence" between the European Commission and member states, each EU country must also approve it before it can take effect.

So far, only Britain, Germany and Ireland have completed the process, though it is well advanced in several other countries, including Italy and Spain. Brussels is confident that all 12 EU members, along with new entrants Austria, Finland and Sweden, will have acted before Christmas.

However, Portugal is delaying ratification until the Council of Ministers has formally approved an Ecu400m (£315m) aid package to help the country's textile industry adjust to the phasing out of trade barriers agreed under the round.

The aid has already been agreed by the European Commission and Parliament, but may not be approved by the Council before its meeting on December 19.

Portugal says that if the Council did not act this month, it would be prepared to hold up ratification until next year, though this is widely interpreted as a bargaining tactic designed to ensure a speedy decision on the aid.

France's national assembly is ready to ratify the agreement on December 14, but its government is pressing for the December 19 Council to assess US implementation – and particularly how Washington intends to maintain its Section 301 trade legislation. France wants the Council to approve a proposed EU "illicit practices" regulation, designed to open other countries' markets.

Ratification has hit snags in two other important trading countries. In Australia, action is being held up at least until next week by two minor party senators who hold the balance of power in the Senate.

In South Korea, the opposition Democratic Party, which

Current Gatt members have up to two years

represents farming interests that would be hurt by the deal, may try to block approval this week by the parliamentary foreign affairs committee. The DP has indicated support for the WTO, but may try to use ratification to exact concessions from the government on a number of issues.

In both countries, the threat of delays does not appear serious. However, it is potentially embarrassing politically, because Australia has strongly championed the round, while Mr Kim Chul-su, South Korea's trade minister, is a candidate to head the WTO.

Only four countries – Switzerland, Liechtenstein, Cyprus and Poland – have told Gatt they may be unable, for different reasons, to ratify by the end of the year.

Switzerland and Liechtenstein have to allow time for a possible referendum on the deal. Cyprus wishes first to complete a wide-ranging revision of trade policy related to its bilateral trade agreement with the EU. Poland says it may not be able to complete the required changes to legislation by year-end and is reluctant to ratify in advance.

Current Gatt members have up to two years to ratify the deal after the WTO comes into force, but must then apply its provisions as if they had been members from the start.

This leeway may be reduced further if Gatt members decide later this week to terminate the Gatt agreement before the two years are up. Many countries are said to be in favour of a one-year cut-off, during which time the Gatt and WTO would operate in parallel.

China 'must raise transport spending'

By Tony Walker in Beijing

China must spend at least $111bn on upgrading its overburdened transport system by 2000 if it is to maintain its planned export-led economic growth, according to a report on Chinese infrastructure.

The report, by the east Asia analytical unit of the Australian department of foreign affairs and trade, predicted that up to 20 per cent, or more than $20bn, of transport funding would come from abroad, but warned that the Chinese authorities would need to improve markedly the investment climate to attract these funds.

"Accumulated infrastructure bottlenecks pose a threat to future growth in China," the report said. "China's rapid economic growth is today fast outstripping the country's physical infrastructure in the power, telecommunications, water and transport sectors."

In 1992, delays in the delivery of coal supplies from northern mines to southern power plants and factories cost China an estimated $70bn. The World Bank had called for a doubling of capital investment in Chinese transport to meet demand in 2000.

The report criticised China for not giving enough priority to upgrading and expanding transport and distribution systems and said bottlenecks "need to be recognised as a major constraint on the fulfilment of economic reform policies and greater prosperity in China".

"So inefficient and inflexible is the infrastructure that it is slowly dawning on foreign investors that investing in China is not as profitable as it might have seemed. Producing goods in potentially the world's biggest market, where there is no efficient distribution system, does not generate good returns."

While China's exports had fuelled annual GNP increases averaging 9-10 per cent, transport had "continued to suffer from decades of neglect".

Investment in transport as a share of GNP declined in the 1980's from 1.7 per cent to 1 per cent by 1990. Total investment in China grew by 37.6 per cent in 1992 while investment in transport registered growth of only 3.8 per cent.

Insufficient transport funding was coupled with a 100 per cent increase in transport volume from 5.47bn tonnes in 1980 to 11bn tonnes in 1993. China's transport network has the highest freight utilisation rate in the world.

Freight intensity measured in tonnes per unit of GNP is 10 times the level of India and Brazil while the tonne kilometre of traffic per unit of GNP is higher than the other two countries by a factor of three.

The report said that while China had sharply increased freight and passenger charges for railways, waterways and roads, the tariffs were still 10-15 per cent below financial costs. Lack of market pricing mechanisms in the railway system were a deterrent to foreign investment.

China was also proving slow to grasp the possibilities for investment offered by build, operate, transfer (BOT) schemes. The report said efforts to transpose the western BOT model to China had met with resistance because of "cultural dissonance" between foreign investors and the Chinese authorities.

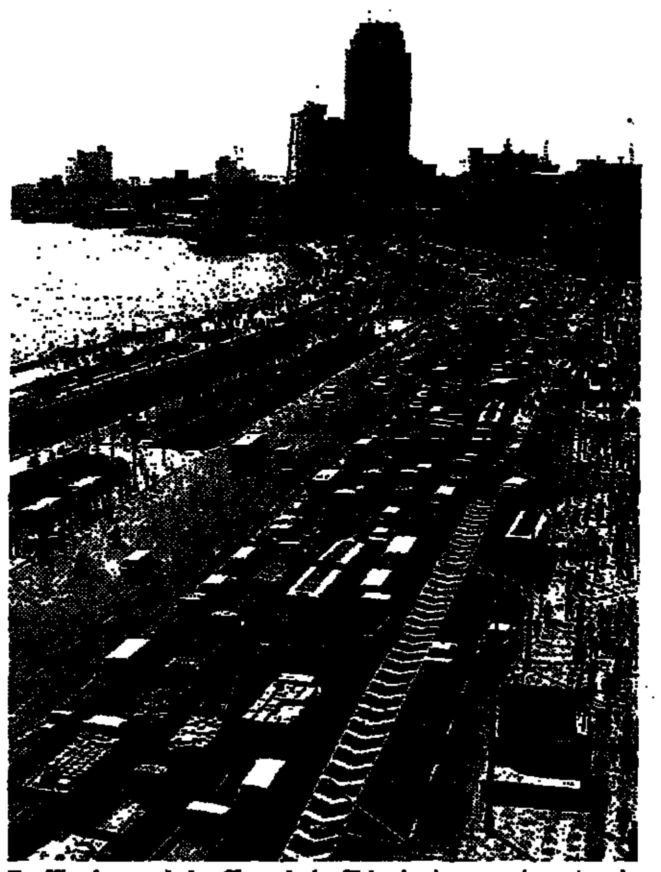
This applied particularly to the internal rate of return (return on investment calculated over the life of the project), with the Chinese insisting on low rates. This had deterred investment in critical areas such as the power sector.

The report recommended that China's transport policy should focus on construction and upgrading facilities as a means of expanding the overall transport capacity, and also achieve a "more efficient" balance among available transport modes.

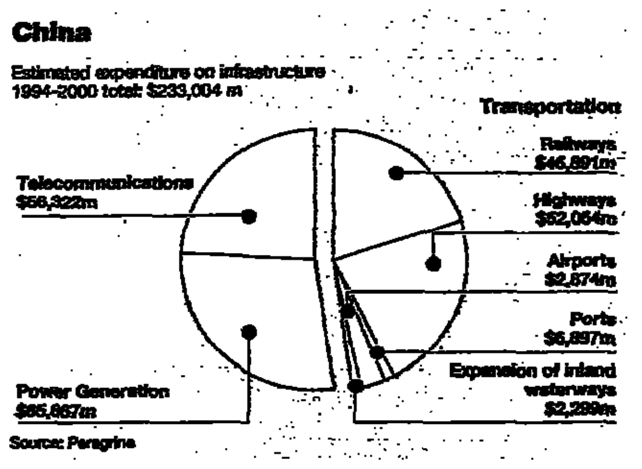
It quoted a 1994 study by Peregrine, a Hong Kong brokerage, which estimated that China would need to invest $52bn in highways, $47bn in railways, $7bn in ports, $3bn in airports and $2bn in internal waterways by the year 2000.

The Peregrine report said China would need to spend $121bn on power generation and telecommunications by 2000. Of this about 20 per cent or $47bn would come from foreign investors in the areas of power, transportation and telecommunications.

Tapping Into China's Infrastructure Market: East Asia Analytical Unit, Australian Department of Foreign Affairs and Trade, November, 1994



Traffic jammed in Shanghai: China's transport sector is suffering from "decades of neglect", according to the report



Source: Peregrine

China has expressed hope that a recent tariff pact with six central Asian neighbours will reverse a sharp slump in traffic on the Eurasian Railway, a fledgling rival to Russia's Trans-Siberian route, Reuter reports from Beijing. "We would like to open up this railroad," Mr Ying Yue from the Chinese Railways Ministry said. "It would benefit our foreign trade and economic development as well as that of the other countries. The more railways we can open the better."

China completed the high-potential intercontinental rail link when it opened Alataw Pass into Kazakhstan in 1990, creating a second land link between the Pacific and Atlantic. Promoters hope a second "Eurasian Land Bridge" mimicking the Silk Road will provide a cheaper, more direct and more efficient alternative to the Trans-Siberian Railway. The Trans-Siberian carries the bulk of transcontinental traffic, but is curtailed by harsh Arctic weather in winter and limited capacity all year-round. Its remote northern route is also of little use for central Asia's economic development.

Foreign direct investment in the transitional countries (cash basis), 1990-1994: cumulative total

	Level $m			FDI per capita
	1992	1993	June 1994	1993
Albania	10	58	62	18
Bulgaria	101	157	182	17
Croatia	16	88	127	19
Czech Republic	1,951	2,519	2,820	242
Hungary	3,442	5,781	6,318	568
Poland (Cash)	494	1,074	1,365	28
Poland (BOP)	1,187			
Romania	120	207	323	9
Slovakia	210	354	390	83
Slovenia	152	263	292	130
The FYR of Macedonia	74	89	96	45
Eastern Europe	6,571	10,590	11,993	99
Belarus	7	14	18	1
Moldova	42	42	42	10
Russian Federation	1,554	2,958	3,558	20
Ukraine	200	398	498	4
CIS European	1,803	3,412	4,116	16
Estonia	58	218	337	139
Latvia	43	82	112	30
Lithuania	10	50	70	13
Baltic States	111	350	519	44
Total above	8,485	14,352	16,628	43
Stocks of FDI in the developing countries (billion dollars)	420	489		

Sources: UN/ECE and UNCTAD

West urged to step up aid to eastern Europe

By Frances Williams in Geneva

The west needs to do much more to help eastern Europe and the former Soviet Union on the path to sustainable growth, the United Nations Economic Commission for Europe says in its latest Economic Bulletin published today.

Although most eastern European economies are showing signs of recovery from the slump following the revolutions of 1989, output is still falling throughout the former Soviet Union, the ECE notes.

It predicts a 2 per cent rise in average gross domestic product in eastern Europe this year but a 16 per cent drop in recorded GDP in Russia and an average drop of nearer 20 per cent for the Commonwealth of Independent States as a whole.

The report says the region's long-term growth remains threatened by a dearth of investment in industry and infrastructure. Official help has been minimal and private foreign investors hesitant. "Private investors simply do not see their role as prime movers in the transition process," the report says.

The ECE, which groups 55 nations in eastern and western Europe, central Asia and North America, calls for more and better targeted aid to remove obstacles to transition to market economies, the basic reason for lack of foreign investment. The west should also quickly remove remaining barriers to eastern exports.

Foreign direct investment into eastern Europe was just under $4bn in 1993 and $1.3bn in the first half of 1994, the ECE notes. By comparison, Mexico alone received $3.3bn in FDI in the first six months this year, a 25 per cent increase.

At the same time, most transition economies have no access to international capital markets – the exceptions are Hungary, the Czech Republic, Slovakia and soon perhaps Poland – and a third have still not qualified for an IMF programme entitling them to loans by international donors.

As a consequence, eastern Europe is dependent largely on scarce domestic resources to finance investment, and on exports to pay for needed imports of capital equipment.

Exports to the west have risen sharply this year, helped by economic recovery in western Europe and especially Germany, the region's biggest trading partner.

However, so-called "sensitive products" such as steel, textiles and clothing, which account for about half east European exports to the EU, are still subject to restrict ions.

Full liberalisation of trade with the west would have a big psychological impact in eastern Europe and among potential foreign investors, the ECE argues. East European exports to the west have risen by almost 40 per cent since 1990, but trade in the other direction has jumped by nearly 80 per cent.

Israelis to launch satellite as TV demand grows

By Julian Ozanne in Jerusalem

Spacecom, an Israeli company, has announced plans to launch a $250m communications satellite called Amos 1 before the end of next year.

Amos 1 will immediately compete against the outdated Saudi-backed Arabsat which is due to be replaced in 1996.

Mr Shlomo Tirosh, Spacecom chief executive officer, said Amos 1 would be able to relay video, voice and data services over an area from Iran to Libya but would concentrate on Israel, Egypt, Jordan, Syria, Lebanon and the Gulf.

The new satellite will beam directly to customers equipped with 60cm dishes and will carry analogue or compressed digital signals.

It will operate in the KU band which uses transponders more powerful than the previous generation of transmitters.

Spacecom will lease segments in Amos's seven transponders to Arab and Israeli customers as well as international clients such as HBO, the pay-TV subsidiary of Time Warner, CNN, the Atlanta-based world TV network and Canal Plus, the French media and pay-TV company, who will directly market their programmes in the Middle East.

In the Gulf region, three rival Saudis have led the quest for the Middle East's satellite viewers (there are an estimated 1m to 2.5m dishes in the Middle East): Sheikh Walid Al Ibrahim, Sheikh Saleh Kamel, the billionaire owner of Islamic banking group Dallah Al-Baraka; and Emir Khalid Ibn Abdallah Ibn Abdel Rahman, who is head of the Mawarid Group, one of the kingdom's largest conglomerates.

"The Middle East is an emerging market for television," said Mr Tirosh. "There is a lot of demand from citizens for TV channels from all over the world and we believe the market will open up considerably in the coming two years."

Spacecom is a joint venture between Israel Aircraft Industries (IAI), one of Israel's largest companies, and three other Israeli companies - Gilat Communications Engineering, C Mer, a telecommunications company and GSSC, a satellite venture. The lightweight-class satellite will be launched by a French-made Ariane rocket and will stay in orbit for between 10 and 11 years. It was manufactured by IAI with Deutsche Aerospace of Germany and Alcatel of France.

Amos 1 will also seek telecommunications business and provide data, voice and oral telephone on the VSAT (very-small aperture terminal) market, increasingly used for business communications in the US and Europe.

Mr Tirosh said the company was seeking partners in the Middle East to operate VSAT networks and to develop a regional network. Gilat already operates VSAT networks in Israel.

Mr Noam Fink, Spacecom operating officer, said Gilat would eventually transfer its services to Amos 1 including data broadcasting.

Among the services currently provided by the company are distribution of Reuters and other financial information and satellite services for paging companies.

Mr Fink said from January 1 next year the company would operate a sophisticated interactive distance learning network to allow interactive lessons with remote classrooms.

A contact to provide these services has already been signed with Israel's open University and the ministry of education.

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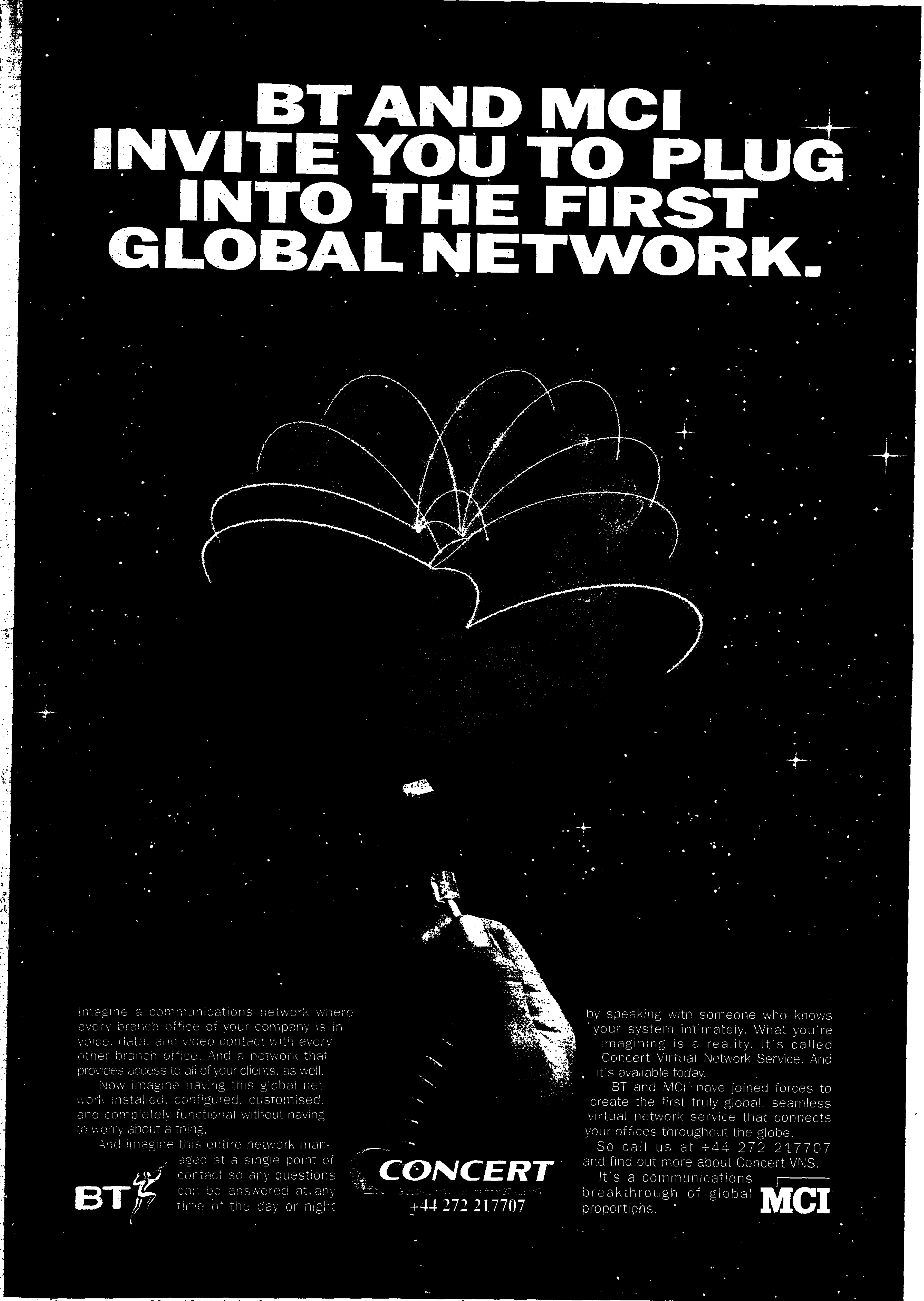

Quarter of workforce to be axed together with payphones and other loss-making activities

Mercury cuts jobs and withdraws services

By Alan Cane and Andrew Adonis

Mercury Communications, British Telecommunications' largest competitor in the UK, *will cut 2,500 jobs*, nearly a quarter of its workforce, over the next 12 months and withdraw loss-making services in an attempt to return to profits growth.

Mercury, 80 per cent owned by UK group Cable & Wireless and 20 per cent by Bell Canada, has been the principal competitor to BT since the latter's privatisation in 1984.

The latest measures, widely anticipated after disappointing interim results last month, will cost the company £120m ($197m) in the current financial year which ends in March 1995, a £40m charge for job losses and a further £80m for asset write-downs associated with the job cuts. Last month the company's interim profits dipped £3m to £96m on revenues up 12 per cent at £797m.

Mercury's bank of nearly 3,000 distinctive blue and silver *payphone kiosks, from which* an estimated 100m calls have been made since 1988, are to be phased out by the end of 1995 as part of the company's cost-cutting programme.

Mr Duncan Lewis, Mercury's new chief executive, said yesterday that he believed the losses – 2,000 permanent jobs, principally in administrative and support functions, and about 500 contract and part-time positions out of a total staff of 11,400 – would be enough to bring costs under control.

There would be no need for further substantial restructuring, although intensifying competition meant there would be continual pressure on costs.

Other services to go include directory inquiries and the company's fledgling on-line services combining information and entertainment.

Mercury will continue to support residential customers but is likely to focus on cable television operators and other industry partners.

Mr Laurence Heyworth, analyst at broker Robert Fleming, said: "Mercury may face an even tougher challenge in future, as BT continues to improve its efficiency and marketing."

Oftel, UK telecoms regulator, will on Thursday publish a consultative document proposing far-reaching changes to the regime for competition in UK telecoms.

Clipped wings, Page 15
Lex, Page 16

Crowded telecommunications market: many Mercury phone boxes in London are sited near rival BT phones, and this one was used yesterday as a leaning post by a caller using a mobile cellphone

PM demands curb on top executives' pay

By Kevin Brown and Norma Cohen

Companies may be forced to secure shareholder approval for executive salary awards under proposals to be considered by a committee of the UK cabinet next week.

Mr John Major, the prime minister, is pushing strongly for a change in the law to make public companies' remuneration subject to an affirmative vote by shareholders at annual meetings. The proposal would add much streng to shareholders' powers.

The plan emerged from an ad hoc meeting of senior ministers convened by Mr David Hunt, the cabinet troubleshooter, after Mr Major condemned "unjustified" pay rises in the Commons.

The prime minister believes it would allay public anger about big pay rises such as the 75 per cent awarded last month to Mr Cedric Brown, chief executive of British Gas.

However, Mr Hunt referred the issue to the cabinet's industrial and consumer affairs committee after Mr Michael Heseltine, trade and industry secretary, made clear his opposition. Mr Heseltine argued that stronger shareholder powers would make it difficult for UK companies to recruit world-class executives from other countries who often demand lucrative salary packages as compensation for relocation.

He told Mr Hunt that the pool of talent available to companies would be reduced, damaging the competitiveness of British industry, if directors knew their packages would be subject to open debate and possible rejection.

Mr Kenneth Clarke, chancellor, supports the drive for change, partly because of reservations about the willingness of institutional investors to support attempts to supervise salary packages under existing law.

The proposed change would probably require primary legislation, but the government's small programme in the present parliamentary session means it could be brought in quickly.

The implications of the proposed change, including the need for legislation, are being explored by a working party of senior civil servants who will report to the cabinet committee next week. The working party is being led by Mr Heseltine's officials, suggesting that the case against the proposals is likely to be put strongly to ministers.

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Glaxo helps fund vaccine research

By Clive Cookson, Science Editor

Britain's first all-round vaccine research centre, the *Jenner Institute, is to be set* up with joint funding from government agencies and Glaxo, the largest UK drug company.

Glaxo will pay £10m ($16.4m) to build and equip the centre alongside the Institute for Animal Health in Compton, 80km west of London. The company and government will each contribute half its estimated £60m running costs for 10 years.

In return, Glaxo will have the first option to license and develop any potential products from the research, paying royalties to the Jenner Institute.

Four government agencies took the initiative to "combat a widely perceived shortfall in British vaccine research". Although there are pockets of specialised research in academic laboratories and small companies such as Medeva and British Biotechnology, the UK has no large vaccine research centres to match those elsewhere in Europe and north America.

Mr David Hunt, science minister, told the centre's launch conference in London yesterday that all UK-based pharmaceutical groups were approached but only Glaxo wanted to take part.

The sponsoring organisations hope the institute will be running in time for the 200th anniversary of the world's first recorded vaccination in May 1796 by Edward Jenner.

Tax rebellion alarms Tory party managers

The government is drawing up plans to raise taxes or cut public spending if it *loses today's* crucial House of Commons vote on value added tax, David Owen and Kevin Brown write at Westminster.

As the rebellion by Tory backbenchers showed signs of spreading yesterday, Mr Kenneth Clarke, chancellor, warned MPs they would look "extremely foolish" if they blocked the government's plans to lift the rate of VAT on domestic fuel from 8 per cent to 17.5 per cent.

With the result of tonight's vote too close to call, Conservative business managers were raising the prospect of a possible increase in income tax or the general rate of VAT if the government's VAT-on-fuel proposals were overturned.

Meanwhile *Labour attempted* to raise the temperature further, claiming that the rebellion was gaining momentum.

As senior Tories insisted that they expected the government to win tonight's vote, Mr David Sumberg, Conservative MP for *Bury South, delivered an unexpected* blow by indicating that he intended to rebel.

Separately, Sir James Kilfedder, the lone Ulster Popular Unionist who often supports the government, confirmed that he would be voting with *the opposition. With the nine* Ulster Unionists also set to vote with Labour unless ministers come up with what one senior MP described as a "very powerful argument", it looked last night as if the opposition of eight Conservatives – or 15 *abstentions – would be enough* to defeat the government. The government's majority is 14.

Shadow chancellor Gordon Brown, leading the opposition Labour party's anti-VAT campaign, said that public pressure was forcing growing numbers of Tory MPs to reconsider. Last night there appeared to be at least 15 Tories, including several Eurosceptics, who might either abstain or vote against the government.

One of these, former education minister Sir Rhodes Boyson, told MPs last night that he thought VAT on fuel was "a bad tax" that would be "resented whatever we do".

Tonight's vote is on a procedural motion reopening the issue of VAT on domestic fuel. Unless Mr Clarke acted immediately to change current plans, the government would need to be defeated at least once more to block the proposed increase.

Speaking in Brussels, Mr Clarke said the only fall-out from a government defeat would be that the "shape of the resulting Finance Bill would change".

"We would alter the balance of revenue-raising and public *spending required to keep us* on course for a sustainable recovery," he said. The constitutional implications of tonight's vote going against the government were "nil."

Observer, Page 15

How the VAT spectre has haunted the Conservatives

1993 March "Bombshell Budget": chancellor (finance minister) Norman Lamont announces measures to control public spending: value added tax will be imposed on domestic heating fuel for the first time in April 1994 at 8% transitional rate; will rise to standard VAT rate of 17.5% a year later.

May *Centrist Liberal Democrat party realises long-unfulfilled ambition by unseating Conservative at parliamentary* by-election in "silicon belt" town of Newbury, 80km west of London. main national issue raised on hustings was threat of VAT on fuel.
John Major replaces Lamont with Kenneth Clarke. Lamont leaves government.

July Lamont says in withering Commons speech that government behaves as if "in office, but not in power". Conservatives crash to humiliating by-election defeat in formerly safe seat of Christchurch on south coast of England.

Nov *Opinion polls show government constantly trailing; alarm mounts among Conservative MPs. MP Nicholas* Winterton tells Clarke: "If the government is determined to lose the next election, it will impose VAT on fuel."

Dec Clarke's first Budget includes bigger-than-expected cuts in public spending. Aid offered to reduce impact of fuel VAT on low-income households.

1994 Feb Government admits that tax increases operating from April 1995 will cost a family on average earnings about £1,000 ($1,640) a year.
Money pours out of savings accounts and into power companies as householders exploit legal loophole *allowing payment of fuel bills in advance to evade VAT.*

July OECD commends broadening of UK tax base through imposition of VAT on fuel.

Nov Extension of aid package in Budget fails to blunt hardline opposition to fuel VAT among government's own MPs.

Dec Conservative rebels threaten to withold support from government when opposition Labour party attacks VAT fuel plan in Commons.

Judge halts ban on Maxwell coverage

By John Mason, Law Courts Correspondent

The Serious Fraud Office failed yesterday in an attempt to have a blanket reporting ban placed on a High Court case in which Maxwell pensioners are trying to recover £60m from Credit Suisse bank.

The SFO had argued that reporting of the case should stop because publicity could damage the chances of a fair trial for people facing criminal charges including Mr Kevin Maxwell, a son of Robert Maxwell.

But Mr Justice Lindsay, the judge in the Credit Suisse case, ruled in favour of ten newspapers including the Financial Times which had opposed the proposed ban. In the civil case, the trustees of the Mirror Group Pension Scheme and the liquidators of Bishopsgate Investment Management, the largest manager of the Maxwell pension funds, are suing Credit Suisse over its acceptance of pension fund assets as collateral for a £50m loan to the Robert Maxwell Group.

The SFO and lawyers for some of the defendants argued that the issues in the civil case overlapped with those the jury in the criminal trial will have to consider. This, they said, meant there was a serious risk that the criminal trial could be prejudiced by press publicity.

However, Mr Edward Bannister QC, for the newspapers, argued there was an important public interest in the Credit Suisse trial being reported.

Cascade of grants and tax breaks boosts attraction of Europe's far west

Concessions lure investors to Ireland

By Stewart Dalby

More than 40 per cent of Northern Ireland's workforce is employed by the British government. Many of the jobs in the security sector – up to 20,000 – *will be lost if the IRA* and loyalist paramilitary ceasefires prove durable. The province's unemployed total of 100,000 would jump 20 per cent unless jobs are replaced.

Those facts explain why so much depends on the success *of the international investment* conference which will open in Belfast a week today.

Mr John Major, the UK prime minister, is hosting the event, backed by US commerce secretary Mr Ron Brown.

Northern Ireland has an *urgent need to attract inward* investment and it is prepared to pay generous incentives. Those have been highlighted this year by the controversial £61m ($100m) grant towards a factory to be set up by Hualon, the Taiwanese textiles group.

A Northern Ireland incentives package can, in theory, amount to between 70 per cent and 80 per cent of total costs – though in practice it is usually far less. The Industrial Development Board, which dispenses grants, claims that in 1993-94 *the government contribution* to new investment was 21.5 per cent for domestic and inward investment.

The board says that overseas investment since 1986 has totalled £1.6bn, involving 265 projects and creating 22,702 jobs. The gross cost per job assisted in inward investment promotions in 1993-94 was £27,424 – meaning that Northern Ireland has one of the most expensive job-creation programmes in the UK.

The IDB argues that it is necessary to spend money. The image of violence has been a powerful deterrent to new companies, but the province is also perceived by outsiders as having a peripheral position.

It has a population of 1.5m and therefore a small domestic market. Its economy is poorly integrated with that of the republic and the Irish Sea separates it from the mainland UK market. In trying to sell the province to investors, Northern Ireland officials argue that there are other factors apart from grants and incentives which make it attractive.

According to European Commission figures, an index of *office construction costs puts* Northern Ireland at 65 compared with 100 for the rest of the UK and 113 for Belgium. Residential property is cheaper, too. The workforce is well educated and wages are 16 per cent lower than in mainland Britain. If a company wants to rent rather than build a factory there are grants for up to 100 per cent of rental costs for up to five years. There are also grants for product development, marketing and relief on loans.

Although the province is handicapped in comparison with the Irish Republic by having to levy corporation tax at the UK rate, companies making taxable profits of less than £250,000 pay a 25 per cent rate.

The Republic of Ireland's main attraction as an investment location is that it enjoys Europe's lowest corporation tax, John Murray Brown writes from Dublin. Inward *investment accounts for 75 per* cent of Irish manufactured exports, 55 per cent of manufactured output and 45 per cent of employment in manufacturing.

The Industrial Development Agency, the government body which co-ordinates policy, *says* about 1,000 foreign companies now operate in the republic, taking advantage of a young and educated labour force.

The 10 per cent rate of corporation tax compares with 33 per cent in the UK, the next *most attractive regime.* The terms in the republic run to 2010 for manufacturing and 2005 for financial services.

Subsidies cover an average of 20 per cent to 30 per cent of capital costs, rising as high as 60 per cent in areas of high unemployment.

The republic is the first choice of location overseas for US companies in the software and healthcare sectors. The US accounts for 75 per cent of all inward investment companies in the republic. In electronics, *only the UK attracts more US* companies.

Competitors for inward investment

There are variations in the level of assistance available. Some UK regions benefit from specific European Union programmes while others do not.

	Level of grant	Unemployment (% of workforce)	Wage levels* (average weekly earnings)	Cost of industrial land (per acre)
Northern Ireland:	50% for buildings, 100% for rental costs, variable for machinery, training and development costs	12.7	Men £313 Women £232	£40,000
Scotland	Regional selective assistance for development areas and intermediate areas. In development areas grants can amount to 30% of project costs. Average is 10 to 20% in development areas and 10 to 15% in intermediate areas.	9.3	Men £330 Women £237	£130,000
Wales	Regional selective assistance	8.6	Men £308.3 Women £231.6	£100,600
North of England	Regional selective assistance	11.3	Men £321.8 Women £225.2	In non economic zone areas, with planning permission for office blocks £50,000

* UK Average: men £352.5, women £252

Sources: Regional Trends, Employment Department, Industrial Development Board for Northern Ireland

UK NEWS DIGEST

EU tax demand may push up cost of betting

Betting on races such as the Prix de L'Arc de Triomphe could become more expensive if a new European Union draft directive becomes law. The proposal attached to an directive on farming is designed to raise more money for the European bloodstock industry. But it would mean that bets on races in one EU state would incur the tax imposed by the country in which the race was run.

A UK bookmaker would have to pay the 5 per cent French levy for a bet on a French race rather than the UK levy of just over 1 per cent. In the Irish Republic, where there is no levy on off-course betting, the proposal would have a more general effect. More than 80 per cent of all Irish bets are placed on UK races and would attract the British rate of tax.

Mr Tom Kelly, director-general of the UK's Betting Offices *Licensees Association*, visited Brussels yesterday to protest against the recently changed text of the farming directive. He said it was wrong to introduce a substantial tax change through an agricultural directive and believed the plan breached subsidiarity rules. Horse racing was supposed to be one of the EU industries allowed to set rules at national level. British bookmakers say their French counterparts can more readily afford a 5 per cent levy because their overheads are *lower. Unlike British bookmakers*, they are allowed to trade in bars and cafés.

Lloyd's drive against legal action faces resistance

Efforts by the Lloyd's insurance market to end legal action from *lossmaking members face resistance from* those who would have to pay most of the bill. The insurance market's ruling council is expected to hear of the obstacle tomorrow. It emerged yesterday that Mr Peter Middleton, Lloyd's chief executive, recently met "errors and omissions" insurers – who provided negligence cover to professional agencies being sued. The meeting formed part of his efforts to increase pressure for a new settlement.

E&O insurers are understood to be divided over whether fresh negotiations are in their interest, but most believe firmly that they have no incentive to enter talks now. Tomorrow's council meeting is expected *to decide whether attempts to* forge a new deal should be stepped up. The mass of pending litigation continues to blight the image of Lloyd's, deterring potential investors and hampering the insurance market's efforts to collect money owed by Names.

Earlier this year, Names – individuals whose assets have traditionally supported the insurance market – rejected a deal worth £900m ($1,48m) and have subsequently pursued court actions for claims totalling about £3bn. But the E&O insurers argue that the sums available to fund any deal have not changed and that lossmaking Names continue to have unrealistic expectations about how much they might eventually receive – either through court action or a settlement.

Money supply growth stays well above government target

The rate of annual growth in M0, the narrowest measure of money supply, fell back in November, figures from the Bank of England, the UK central bank, showed yesterday. Measured on a seasonally adjusted basis, M0 grew 7.1 per cent in the year to November. This was lower than in October and September when M0 grew by 7.3 per cent and 7.2 per cent respectively.

However, the annual growth rate was slightly higher than the market had expected and remains well outside the government's target monitoring range of 0 per cent to 4 per cent. M0 has traditionally been taken by the Bank of England as a key inflation indicator. However the Bank and the Treasury have recently been moving away from using monetary aggregates to set interest policy, not least because M0 has diverged from retail sales and inflation trends this year.

Demand for consumer credit still far ahead of last year

Demand for credit among UK consumers eased slightly in October, although it continued to run at a high level. Official figures yesterday suggested that finance houses took the lion's share of the business. The Central Statistical Office reported that net lending to consumers by finance houses through unsecured lending from building societies and on bank credit cards under the Visa and Mastercard systems, fell to a seasonally adjusted £451m ($740m) in October from £479m in September. But it was well above the £320m of October last year.

After record net lending of £632m in August, high consumer credit demand in the latest two months ensured that net lending, as measured by the CSO each month, reached a record £1.56bn in the three *months to the end of October.*

● Consumer spending through credit cards was stronger in November than a year ago, figures from the Barclaycard credit card group suggest. The group's data showed that total spending on its credit cards in real cash terms was 9 per cent higher last month than a year before, when adjusted to take account of the number of processing days in the month.

Spending between November 21 and December 2, which are *regarded by most retailers as the first two weeks of the crucial* pre-Christmas period, was at least 7 per cent higher than in the same period a year before.

Business failures decline to lowest level since 1989

The number of business failures in the third quarter of this year fell to its lowest level since 1989, says Trade Indemnity, the credit management group. It reports 784 business failures in the third quarter of this year, which was 5 per cent fewer than in the second quarter and 33 per cent down on the same period a year before.

Trade Indemnity points out that fall in the level of business failures appeared to be slowing, with some regions recording a *rise in business failures between the second* and third quarters of this year. Most of this rise in business failures occured in industries such as textiles, clothing and agriculture which are less affected by swings in the economy. Business failures in cyclical industries such as chemicals and engineering declined significantly.

Plague and kidnappings lead to 'paranoia' in tourists

British tourists rate India and Vietnam among the most dangerous places to visit and many are still deeply fearful of travelling to Florida, says a poll from travel insurance company Home & Overseas. It shows that attacks on visitors to Florida are still fresh in the minds of tourists even though new anti-crime measures have been introduced in the US state.

Fifty-nine per cent of 1,000 people questioned in October said they were afraid of going to India and Vietnam and 41 per cent said they would be worried about travelling to Florida. "Publicity about plague in India and isolated incidents of kidnap and murder in other countries seem to be bringing out the paranoia in British holidaymakers," said Ms Sarah Joannides, deputy underwriting manager for Home & Overseas.

"Their reaction is over the top," she added. "You are actually far more likely to be injured crossing the road in these countries than being attacked." Colombia, Cuba, Israel and Bolivia were also high on the list of destinations considered dangerous while Hong Kong, Greece, Japan, Australia and New Zealand were seen to be some of the safest countries *to visit.*

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PEOPLE

Hutchings and the price of promotion

Greg Hutchings, who earned £1.2m last year as chief executive of industrial and foods conglomerate, Tomkins, could earn less this year in his new role as executive chairman. The promotion is part of a reshuffle announced yesterday.

Hutchings enjoys a complex remuneration package which includes incentive payments based on earnings, dividend and share price performance, but given the company's share price performance over the past year, it was probable Hutchings earnings would be less than last year's. Since January, Tomkins shares have fallen from a high of 282p to last night's 216p.

Leaks to the weekend press forced the early announcement yesterday of the reshuffle, which was originally planned for January. Michael Moore, Tomkins part-time non-executive chairman for 11 years and a director since 1981, is retiring at the age of 58. The company said yesterday the reshuffle had been planned for several months and denied there had been any acrimony over Moore's departure.

Other directors are to be promoted; Ian Duncan, becomes deputy chairman and retains his post as managing director (finance). Bob Muddimer, chairman of the foods division Ranks Hovis McDougall, becomes joint managing director, operations, with Tony Reading, head of the company's US division.

Jim Butler and Lionel Stammers have resigned as non-executive directors to focus on their other board commitments. They will be replaced by Roger Holland, chairman of Cray Electronics, and Mr Wambold, a managing director of Lazard Brothers in London.

Peggy Hollinger

Bodies politic

■ Peter Wetzel, chairman of S.R. Gent (UK), has been appointed one of the four world vice-presidents of the TEXTILE INSTITUTE.

■ Tom Vyner, deputy chairman of joint md of J. Sainsbury, has been elected president of the INSTITUTE OF GROCERY DISTRIBUTION.

■ David Thomas, md of Whitbread restaurants and leisure, and James Walker, joint md of Walkers Shortbread, have been appointed to the council of FOOD FROM BRITAIN.

■ William Day has been appointed director of the OPPORTUNITY TRUST which funds revolving-loan schemes in developing countries.

■ Bill Gartland, former md of Thomson Directories who is also a director of Dun & Bradstreet Group (UK), has been appointed a special adviser to the PRINCE'S YOUTH BUSINESS TRUST.

■ Keith Birch, formerly head of optical metrology at the National Physical Laboratory, has been appointed executive secretary of the BRITISH MEASUREMENT AND *TESTING ASSOCIATION*; John Wilson, founder secretary, becomes executive assistant.

■ David Bentley, chief internal auditor at Leeds Permanent Building Society, has been appointed chairman of the International Membership Committee of the INSTITUTE OF INTERNAL AUDITORS.

■ Roy Ayliffe, general manager of the materials *division of the Post Office, is to* spend a year's secondment with Partnership Sourcing, the joint DTI/CBI initiative set up to promote long-term relationships between purchasers and suppliers.

■ Tim Kind, formerly vice-president of the Small Business Bureau, has been appointed to the board of the LONDON CHAMBER OF COMMERCE AND INDUSTRY; he is chairman of its Small Business Committee.

Finance moves

Morgan Grenfell has suffered its first defection since the announcement that the London merchant bank would be integrated more closely with the investment banking arm of its parent, Germany's Deutsche Bank.

Simon Willes, 33, a director of Morgan Grenfell International, is leaving to join the board of the specialist merchant bank, Close Brothers. Willes, who previously worked for Robert Fleming, is being recruited to lead an expansion of Close's corporate finance department, which he is expected to head early next year.

Robert Peston

■ Takumi Shibata, formerly md of investment banking division of NOMURA, based in London, has been appointed executive vice-president of Nomura Project Finance International in Hong Kong. He is succeeded by Hiromi Yamaji. Kozo Yamazoe has been promoted to md of corporate finance within the investment banking division and Sam Berwick and Michael Bloomfield promoted to mds in the debt markets division.

■ Simon McClean, formerly investment director of London & Manchester, has been appointed md of SUN LIFE Asset Management.

■ Chris Thom has been promoted to general manager, strategic development at MIDLAND BANK; he is succeeded as general manager, retail banking services, by Patrick Boylan.

Amzallag: pulling BNP together

Robert Amzallag (right), 50, has been given the job of making BNP's presence felt in the UK. He has been appointed managing director of BNP UK Holdings which oversees the UK operations of the recently privatised French bank.

BNP, one of the oldest-established French banks in the City, has assets of over £9bn in the UK and employs more than 800 staff. However, its various operations – ranging from its traditional bank branch, to BNP Capital Markets and BNP Mortgages – have tended to work independently of each other.

The latest reshuffle is part of an effort to achieve greater synergy and co-operation between the group's financial and commercial banking activities in the UK. BNP says it wants to build on its traditional strengths in foreign exchange, lending and bonds.

Following the French parent's decision to reorganise its worldwide management structure along product lines, responsibility for BNP's worldwide bond business has been delegated to London. Philippe Truffart, managing director of BNP Capital Markets, will head the operation. BNP says that it also intends to develop a significant presence in London in structured finance, international private banking and emerging markets.

BNP is unusual among foreign banks in the City in having its own board of local UK directors chaired by Lord Hunt, 75, a former civil servant. Sir Geoffrey Mulcahy, chairman of Kingfisher, has been appointed a non-executive director of BNP UK Holdings.

William Hall

PERSONAL

LEGAL NOTICES

No. 007436 of 1994

In the High Court of Justice
Chancery Division

IN THE MATTER OF
CHARTER PLC
and
IN THE MATTER OF
THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on the 18th November 1994 presented to Her Majesty's High Court of Justice for the confirmation of the cancellation of the Share Premium Account of the above-named Company amounting to £94,367,776.09.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before Mr Registrar Buckley at the Royal Courts of Justice, Strand, London WC2A 2LL on Tuesday the 20th December 1994.

Any creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said cancellation of Share Premium Account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the under-mentioned Solicitors on payment of the regulated charge for the same.

DATED the 29th day of November 1994

Slaughter and May
35, Basinghall Street
London EC2V 5DB
Ref: RLH
Solicitors for the said Company

ISOFLAM LIMITED
REGISTERED NUMBER: 2442065

Nature of business: Manufacturers of Composite Insulated Panels

Trade classification: 11

Date of appointment of administrative receivers: 28 November 1994

Name of person appointing the administrative receivers: Barclays Bank plc, Churchill House, 33 Dingwall Road, Croydon, Surrey CR0 9RG

V M BARSTOW and N RUDDOCK
Joint Administrative Receivers
(office holder nos. 005316 and 006877) of
ROBSON RHODES
186 City Road, London EC1V 2NU

BUSINESSES FOR SALE

MANAGEMENT: THE GROWING BUSINESS

Michiyo Nakamoto on how small companies are holding their own

Standing up to Japan's giants

How does a small, family-run parts supplier protect itself from the whims of large, powerful customers on which it depends heavily for business?

The question has haunted Akira Jimbo, president of Jimbo Seisakusho, as he has steered his small components manufacturing company through boom and bust over three decades.

Jimbo Seisakusho, which specialises in the manufacture of small parts such as nuts and bolts for electric tools, line printers and medical equipment, is located in an industrial region west of Tokyo.

The company employs about 25 people and delivers 80 per cent of its output to a Japanese maker of heavy electrical machinery.

At a time when many small Japanese suppliers have seen business dry to a trickle in the country's sluggish economic environment, Jimbo has been so busy it has had to turn orders down. Growth in revenues has been in double digits this year, rising 30 per cent in August alone.

The struggle to find a way to enable his company to stand on its own stems from the bitter experiences Jimbo has had with large customers over the years. The company has faced collapse twice in the past.

"We used to manufacture products in volume but during times of difficulty, our customers would tend to take these products in-house or competitors would undercut us," Akira Jimbo explains.

In today's high-yen environment many small Japanese suppliers are again losing business to their customers or lower-cost countries in Asia. "Anything that can be made in China or other cheap countries is being taken away," he laments.

Jimbo also found that large customers often copied manufacturing techniques the company had developed through trial and error. This is a particular problem in Japan where relationships between suppliers and their customers are extremely close, making it difficult for small suppliers to stand up to large customers.

"In the past we used to rack our brains about how to make some products faster and better than others. But customers would send people over to look at what machines we used and how we had them developed and order exactly the same machines from the same companies which supplied us," Akira Jimbo recalls.

His solution has been to reduce dependence on mass production and concentrate on making things that other people cannot make. The company has discarded all its mass-production machines which were copied by its customers.

Instead, it has developed expertise in producing very small nuts and bolts which others, including clients, find impossible to imitate. For example, it developed a method to make a nut for the Monju fast-breeder reactor that is just 2.4mm wide and 1.5mm thick and which has a screw inside that is cut at an angle.

"There aren't very many companies which can do this kind of work because it requires extreme precision," Akira Jimbo says.

The company's ability to *produce such small parts stems from* the use of digital computer techniques to program machinery and processes. Akira Jimbo's son, who

Expertise it has developed has meant customers seek the company out

trained as an engineer, is the programming brain behind the controls used.

The expertise it has developed has meant customers seek the company out. It does not ask for work.

"When you go asking for work you have to offer a 10 per cent cut in prices. But if they come asking you, you can put 10 per cent on top of the going price," Akira Jimbo says.

With that advantage, the company has been able to follow a golden rule never to take on work that could be shifted overseas, and it no longer suffers from being copied by its clients either.

Brooke laments 'a certain reluctance among good technologists and managers to go into a small company' Brendan Corr

Cult of the big company

Peter Brooke, pioneer of venture capital for high-tech companies in Europe, talks to Richard Gourlay

Peter Brooke thinks his time at Harvard Business School was the worst two years of his life. The presumption that there was an answer to every problem in business irritated him.

But the American entrepreneur, who was to found Advent International and become a pioneer of venture capital investment in high-tech companies in Europe, did take a course taught by Georges Doriot on management. Doriot founded American Research and Development, which became one of the first successful US venture capital organisations in the 1950s.

But Doriot was much less successful when he returned to his *native France to try to repeat the* US success in Europe. That failure then provided Brooke with an invaluable lesson when he followed his former tutor across the Atlantic to built Advent International.

Instead of trying to find and evaluate deals from a central office, as Doriot tended to do, Brooke made sure he had partners in each country who could unearth potentially interesting businesses and understand local ways.

Twenty years on, Brooke says Europe remains a difficult environment for venture capitalists. Hindered by the lack of a true single market and a constrained *entrepreneurial culture, Europe is still very* different from the US as a market for private equity investment. But it is not impossible.

Over the past 18 months, Advent International has raised $315m for a global equity fund, forty per cent of which is to be invested in Europe and some of which will be invested *alongside the $1bn its affiliates* already have available for investment on the Continent.

"The main opportunity in Europe is in those countries that are restructuring to handle the competitive future," Brooke says. The break-up of large corporations and return to core businesses means companies and management teams are on the move. And the transfer of family-owned companies from founder to a next generation provides another opportunity.

But Brooke is gloomy about Europe's chances of producing a large number of high-tech opportunities for venture capital backing. Advent International's own 1980 technology fund is making money, 14 years later, but the returns are not exciting, he says.

The issue is not that *entrepreneurial flair and technical skills do* not exist. It is just that in Europe these abilities have tended to stay hidden inside large companies.

"There is a certain reluctance among good technologists and managers to leave the womb of a Siemens or Alfa Lavell to go into a small company," Brooke says. "It is not necessarily a lack of entrepreneurial spirit, it is a matter of custom and culture. Success is measured by how well you have done within Siemens. Leaving is almost regarded as being anti-social."

Brooke believes this cult of the large company in Europe still prevents talented individuals from going it alone. "Take the structure of the German industrial management," he says. "You have engineers, production managers, marketing and finance people. But if an engineer does a spin-off he has absolutely no idea of marketing."

Brooke's view of Europe as a venture capital opportunity is at odds with moves by some large private equity investors, such as CVC Capital Partners, Barings and Hambros, which have been *expanding steadily* into continental Europe.

But without naming names, he is not sure some of the larger fund managers are particularly venturesome. He is scathing about private equity investors who do not build companies, engineer "simple leveraged buy-out" deals and "sit around having lunch trading deals".

True venture capital, he says, involves the identification of an area of technology and detailed research into its application followed by active selling of the idea that venture capital can help build businesses.

"A lot of people have lost sight of *this with all the leveraged buy-outs,*" he says. Advent International, he claims, never engages in this practice, even when – as now – the most promising area for venture capital investment arises out of restructuring businesses. "If we do use debt in a deal we would never use anything but free cash flow [after research and development expenditure] to pay down the debt."

One way Advent International has attempted to add value is by *providing support from its Boston* headquarters to the businesses it backs. It will, for example, help with strategic issues such as entering new markets or how to approach the Federal Drug Administration to get approval for a new product. Brooke believes this service sets Advent Interantional apart from other venture capitalists. But he also knows competition is likely to hot up.

Established investors of private equity in the UK and Europe have recently raised large new funds and are just as aware that they need to add value if they are to outsmart the competition. "If there is an *oversupply of capital we have to* continue to prospect and not do things so that pricing gets out of control," Brooke says.

Brooke is enthusiastic about plans now being worked out to form a European equivalent to Nasdaq, to provide dynamic companies with earlier access to capital. But, he says, some companies should be nurtured in private longer. Too many float to provide exits for investors and not to raise new *money*.

After more than 40 years in venture capital, Brooke attracts disciples, just as Doriot did. His goal is still to build Advent International into the world's best private equity investor. But at 65 he wants to get out of the business. His trouble is that right now – as when *he was at Harvard – he doesn't* have the answer for how to do it.

In a Nutshell

Head start for VCITs

The prize for being first to the draw on the new Venture Capital Investment Trusts, details of which were published last week in the UK Budget, must go to Rothschild Asset Management.

Hardly had the Chancellor of the Exchequer sat down after announcing significant tax breaks for investors prepared to back unquoted companies than Rothschild was committing to launch a trust.

This trust will invest in the food sector. It will focus on companies with potential for rapid growth that are involved in product or market innovation or technology development, investing up to £1m in any one business as the new rules allow.

Such has been the early enthusiasm among venture capitalists that other trusts will not be far behind.

The question whether investing in these risky investment trusts is wise will be addressed elsewhere in this paper. After the finance bill, this page will review the kinds of growing businesses the trusts might back.

Getting value out of your valuer

Don't employ unqualified people to give advice on rating matters following the latest uniform business rate revaluation to be announced early next year. So says the Institute of Revenues Rating and Valuation, which represents public- and private-sector staff involved in local taxation.

If the institute is to be believed, the UK is full of "bogus rating consultants". The institute's advice is to wait. Lists of valuations will be published by the Valuation Office Agency early in 1995 showing new rateable values that will come in next April.

In the meantime, *Business Rates: Your Guide* is available for £5.99 from the Institute of Revenues Rating and Valuation. Tel 071 831 3505.

هكذا من الاصل

BUSINESS AND THE LAW

Court has power in swap rate case

EUROPEAN COURT

The European Court of Justice has been asked to rule whether it has jurisdiction to hear a case concerning the Brussels Convention on Jurisdiction and the Enforcement of Judgments referred to it by the English Appeal Court.

The case concerned interest rate swap contracts between Glasgow District Council and Kleinwort Benson, the UK merchant bank. In performance of the contracts, Kleinwort Benson paid Glasgow District Council sums totalling more than £800,000. After these payments, the House of Lords ruled that local authorities such as Glasgow District Council did not have the power to enter into such contracts.

In the light of the Law Lords judgment, Kleinwort Benson brought a High Court action against Glasgow District Council for restitution of the sums paid out under the swaps contracts.

The parties agreed the contracts were governed by English law, that England was the place of performance and that it was the place where the harmful event occurred. However, they were in dispute about which UK courts had jurisdiction to hear the dispute.

Kleinwort Benson argued the English Courts should have jurisdiction. Glasgow District Council claimed the Scottish Courts should hear the case.

The English High Court decided it did not have jurisidiction. Kleinworts appealed and the Appeal Court which referred the issue to the Luxembourg court.

The claims of both sides were based not on the Brussels Convention but on the provisions of a schedule to the 1982 Civil Jurisdiction and Judgments Act, which incorporates the Convention into UK law. One of the act's provisions allows for questions relating to any Convention issue to be referred to the ECJ.

Such a reference is not made under the Rome Treaty but under a 1971 Protocol to the Brussels Convention. Because of this technicality, the issue of the ECJ's jurisdiction to hear the case arose.

Both Glasgow District Council and Kleinworts together with the German and Spanish governments argued the Court did have jurisdiction to give a ruling on the questions referred to it.

Their arguments were based on the fact that the reference related to the Convention; that even if it concerned the application of the internal legislation of a member state, the national law in question referred to provisions of Community law for which the ECJ had jurisdiction; that it was necessary if there was to be a uniform application of Community law; and, that the mere fact that the case concerned the assignment of jurisdiction between courts in a single member state should not deprive the ECJ of its jurisdiction.

However, the French and UK governments, together with the European Commission argued the Court did not have jurisdiction to deal with the reference. Their arguments included: the fact that the dispute did not concern an international jurisdictional issue, but rather a conflict of jurisdiction in one member state; that the reference was governed exclusively by national law; and, that even if the Court did give a preliminary ruling, the national court would not be bound by that ruling as it would only be an advisory opinion and in such an event, it would be ruling on questions of national law contrary to its own caselaw.

It was argued the Court's case law on the interpretation of Community law applied by national legislation should be strictly construed and apply where the national law directly transposed the relevant Community law. That was not the position in this case.

On the separate issue of which UK court should hear the dispute, Kleinworts claimed that jurisdiction should be given to the English courts either because England was the place of performance of the contracts or because it was where the harmful event occurred. Glasgow District Council argued the normal rule should apply, whereby people are sued in the part of the country in which they are domiciled.

The advocate general's opinion is expected next year followed by a full judgment of the ECJ.

C-346/93: Kleinwort Benson v City of Glasgow District Council, oral hearing, 22 November 1994.

BRICK COURT CHAMBERS, BRUSSELS

Stampede for India overdue

Global firms must now expand on to the subcontinent, writes Nigel Page

During the last two years, the emerging Indian market has played second fiddle to China in the strategic thinking of most international law firms.

In spite of its size (a population of 900m), the three-year-old economic liberalisation programme instituted by Narashima Rao, the Indian prime minister, has yet to convince western investors of India's secure long-term potential.

British law firms must now turn their attention to India's immediate future. Otherwise they will lose the advantage they enjoy over their American rivals through traditional Anglo-Indian cultural links.

Only three western law firms, White & Case, Chadbourne & Parke, and the UK's Ashurst Morris Crisp, have opened offices in India – in contrast to the stampede to open offices in Hong Kong and China.

Others are bound to follow, but it is not yet clear when. Much legal business in India just now is generated by energy projects and by the continuing popularity of global depository receipts (GDRs) among western investors. GDRs, issued by depository banks, are a convenient method of purchasing shares in Indian companies and now account for the majority of emerging market paper listed on the Luxembourg stock exchange. Investment funds have also proved popular with investors during the last year. About 22 have now been set up.

While this work can easily be handled from London or Hong Kong, mounting foreign direct investment in India, accelerating capital markets activity and infrastructure projects are all forcing lawyers to spend longer periods in the country. Foreign direct investment is expected to rise to $2bn next year and portfolio investment has now reached $4.1bn. Although below Chinese levels, these figures indicate steady positive growth.

If India follows the Asian pattern, US law firms will only start to arrive in force when their chief institutional clients do the same. Most British law firms, however, have no such tradition to follow. There is therefore time for them to take advantage of historical Anglo-Indian links and of the fact that India's legal system is modelled along English lines.

Yet Ashurst Morris Crisp, in Delhi, is the only British firm with an Indian office. Mr Philip Hurst, an Ashurst partner, says the firm opened an office there because of demand from UK clients active in the infrastructure field. "Although as a firm we don't have many foreign offices, client pressure last year brought us to the conclusion there were huge opportunities for us in India," he said.

Karen Willis

Pointing out the way forward: dealers on the Bombay Stock Exchange

New Delhi as the centre of government is the best place for those firms looking to specialise in infrastructure project work. Chadbourne & Parke, a firm which specialises in project finance, was the first foreign firm into India. Mr Greg Ullman, a Chadbourne partner, confirms Ashurst's thinking. "When we pitch for work on infrastructure projects it definitely helps us to have an office here. But you need a niche area of practice in India. There is no point opening an office just hoping to build up a practice," he said.

Capital markets lawyers are forced to consider India's financial centre, Bombay, where commercial property rates are almost as high as Hong Kong.

The process of opening an office can also be daunting. Administrative decisions are often a long time coming in India. And there is vocal resentment from some quarters of the Indian legal profession, looking to protect itself from "the foreign onslaught" as it was described recently in the Indian Financial Express.

Ironically, practising Indian law is not on the agenda for most foreign law firms, which are much happier referring domestic work to local law firms (which with their lower fee rates are often the preferred advisers on many joint ventures).

Ashurst's is not the only British firm active in the Indian market, however. Freshfields and Linklaters & Paines stand out as lead advisers on the $2bn (£1.2bn) Dabhol Power project, advising respectively MSEB, the state electricity board, and Enron, the US project company. The US firm White & Case acted as advisers to the lenders.

Freshfields hopes in the future to capitalise on its projects experience elsewhere in Asia, especially when the transport development programme goes on stream. Freshfields advised on the Malaysian North-South Highway project.

Linklaters is also prominent in Indian capital markets work. Mr Nikhil Mehta, head of Linklaters' India business group, says: "India really took off for us in 1992 when we acted for Reliance Industries on its global depository receipts issue." Since then the firm has advised on 31 public issues.

But the real challenge for firms looking to move into the Indian legal services market will be to develop their practices beyond their initial area of specialisation, he says.

Capital markets work can be managed from outside India. But it is also frequently the area where competition between US and UK firms is strongest and the Americans will not be slow to set up in the market once investment banks provide the impetus.

To pre-empt this, many lawyers believe British firms need to open in India now and develop broad-based practices in the infrastructure, foreign direct investment and capital markets fields. British foreign direct investment in India has only recently begun to pick up speed, but the recent British trade delegation underlined future intentions, with a strong presence from UK road construction companies. The delegation also received assurances that efforts would be made under the Indo-British Partnership Initiative, to facilitate British lawyers setting up in Indian cities.

Simmons & Simmons, Denton Hall and Masons are three City solicitors firms with well-developed Indian practices all facing the dilemma of exactly when to make the commitment.

Denton Hall is active in the power sector and as Mr Henry King, its chairman, admits: "If we opened, we would be looking to make the leap from that sector to capital markets." But, he acknowledges, it is all a matter of timing. "Rather like driving in India, you need excellent judgement and plenty of luck."

There is no doubt US lawyers intend to play an active role in India's development and White & Case's Bombay office is a good indication of what may follow. It handles foreign direct investment, capital markets work and project work and expects to see rapid growth in Indian companies looking to raise finance from US offerings as Indian business restructures.

That optimism looks well-founded given Wall Street's continuing infatuation with India. US analysts are confident that the Indian economic liberalisation programme has sufficient momentum and 144A offerings (private placements in the US) of Indian deals will become prominent.

It is no surprise that White & Case should be among the first into India – the firm has a record of moving quickly into new markets – but others will follow soon enough. Skadden Arps Slate Meagher & Flom is already active in Indian markets as is Simpson Thacher & Bartlett, which acted for the India Fund Inc in February. Mr John Lobrano, a Simpson partner says: "We have strong relationships with all the major US banks and if they opened out there it could possibly prompt us to reconsider."

British law firms which fail to exploit their current advantage over US competitors could be making a serious strategic error which they will live to regret.

LEGAL BRIEFS

Survey shows UK firms lead on financial advice

UK law firms dominate the global market for financial legal advice, according to Global Research, the independent market research division of Euromoney Publications.

Global Research interviewed 221 heads of legal departments at financial institutions across Europe, North America and the Asia/Pacific region. More than 300 law firms received recommendations, but Clifford Chance, the UK's largest international law firm, emerged as clear leader, with 72 mentions. Second was Allen & Overy with 47; third, Linklaters & Paines with 35; and fourth, Baker & McKenzie, the only firm with US origins in the top five, with 23 mentions. Slaughter and May was fifth with a score of 19.

The research showed that most financial institutions will reduce the number of law firms they use over the next few years, increasing competition among lawyers for a bigger share of a growing volume of work. The amount of legal advice that institutions will need is also expected to rise by 20 per cent between 1994 and 1996 with a corresponding 10 per cent reduction in work done in-house.

Business lobby

Washington-style lobbying by law firms is coming to Westminster. City solicitor Lovell White Durrant is the first of many considering setting up a business lobbying department.

Lovell sees the move as a natural extension of its lobbying activities in Brussels, where its lawyers have been involved for 20 years in putting clients' views to decision-makers on Europe. Lovell has hired David Tench, former head of legal affairs at Consumers' Association, to guide its lawyers through the Whitehall maze.

Pursuit of 'best' debtors

Legal & Trade, the consumer debt recovery company, has introduced a computer-based credit scoring system designed to cut legal and administrative costs by enabling companies to pursue cases most likely to yield repayment.

Its Epic 2 system provides users with a detailed score for individual debtors and an assessment of the likely success of litigation.

Epic 2 uses account information on debtors, such as their repayment records, supplied by users, such as banks, building societies and public utilities. It combines this with information on county court judgments and consumer credit data supplied by Equifax Europe, the credit ratings agency.

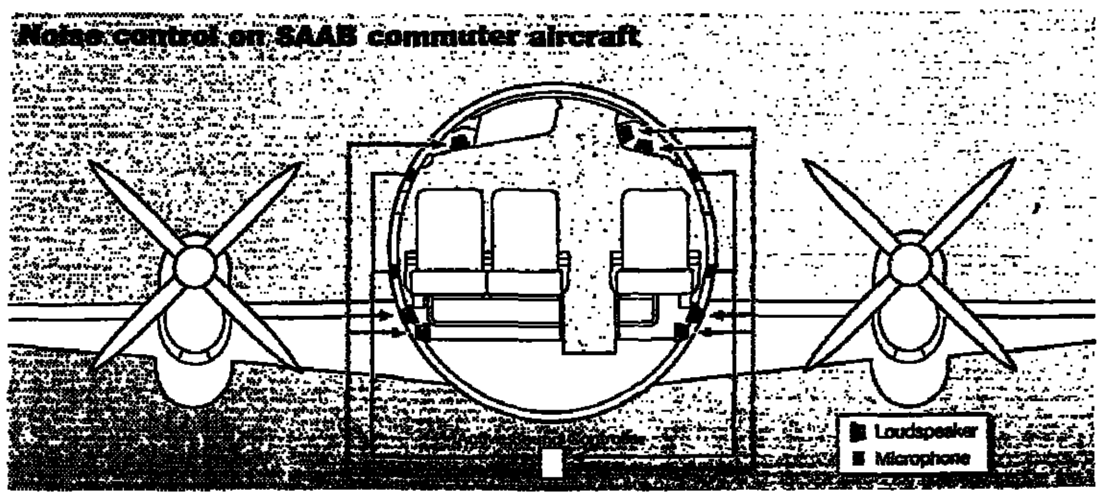
Legal & Trade says there are currently 3m debtors on the database, of which 250,000 have been assessed as worth pursuing for debt repayment.

Typical results from the banking and utility sector, according to Legal & Trade, suggest that if a business normally achieves a 30 per cent success rate by suing 1,000 debtors a week, Epic will increase this to 60 per cent. This means a business can sue about 500 debtors and still win about 280 of the cases. The amount of money recovered may not change, but savings are made by cutting the cost of pursuing hopeless or marginal cases.

Epic 2 replaces a forecasting system introduced in 1990. Legal & Trade says credit scoring technology has improved since then, and that it has widened and updated database material.

The Epic 2 service is provided by Equifax from its mainframe computer. Access is via a PC, on tape or disk, on-line with a modem, or manually. Before computerisation, credit assessors made manual checks by sending representatives to individual homes. This was more costly and it meant the assessment depended in part on a representative's subjective view, according to Legal & Trade.

Sheila Jones



Sound of silence

Geoff Nairn looks at how technicians are making turboprop aircraft quieter by creating noise of their own

Travellers on commuter airlines should soon be able to work or snooze more easily after installation of cabin noise reduction systems in turboprop aircraft.

The technology applies the theory of active noise cancellation (ANC) to reduce the high levels of cabin noise in propeller-driven aircraft. A vast range of potential applications – from quelling vehicle vibration and taming refrigerator rattle, to muffling machinery – has attracted high-tech start-ups and mainstream manufacturers alike.

The ANC theory was developed 60 years ago, but immature technology and prohibitive costs killed early development projects. Now it is finally moving out of the lab and on to its commercial feet.

The systems use electronics to detect an unwanted sound and then generate a second sound wave of equal frequency but different phase (where the sound wave's troughs coincide with the peaks instead of each other). The two waves combined tend to cancel each other out, leaving a much reduced sound.

While the theory is simple, implementation is not, particularly in real applications where noise is a cocktail of different, changing frequencies. The cabin quieting system developed by Ultra Electronics of the UK took four years of testing before its introduction this year on Saab commuter aircraft.

The dominant noise in a turboprop aircraft comes from the spinning propellers vibrating the fuselage, and varies with engine speed. The ANC system, by monitoring the engine speed, knows in advance the main frequency – the one responsible for the most noise – to cancel.

Inside the cabin of the 50-seater Saab 2000, 72 microphones measure the noise at different locations and feed a control unit. Here, powerful digital signal processor (DSP) microchips and patented algorithms generate mirror-image signals which are fed to 36 loudspeakers concealed in the cabin trim. According to Ultra Electronics, the result is a 12 decibel, or 75 per cent, reduction in noise at the main frequency at high speed.

Conversation is not affected by the noise reduction because the system reduces sound only at low frequencies, such as that generated by the engine. High frequencies are better suppressed using cheaper passive techniques such as sound-absorbent materials, which function poorly at low frequencies.

Saab Aircraft, Saab's aircraft-making division, is the first to fit the cabin quieting system as standard. De Havilland, the Canadian aircraft maker, and Avions de Transport Regional, the Franco-Italian consortium, plan to follow. The system costs $70,000-$100,000 (£44,000-£63,800) to install, according to craft size.

Like many regional airlines, Crossair, the Swiss regional carrier, liked the lower operating costs of turboprops over jets, but not their noisy reputation. Without ANC, turboprops can generate an intrusive 85dB of noise against 78dB for a jet. (US federal law sets a workplace noise limit of 90dB for an eight-hour working day).

Cabin quieting is one of the applications of ANC made feasible by the tumbling cost of DSP microchips. "The first DSP chips in the 1980s cost $1,500 but replaced a $700,000 minicomputer. Today, those chips cost $2-$3," says Steve Dickmann, president of Digisonix, a US pioneer of ANC. The company says it sees its best markets for ANC application in heating, ventilation and air-conditioning systems. Conventional passive silencers cut the noise spectrum or "white noise" of fans in ducts. But they cut high frequency noise more than low frequencies, leaving a rumble.

Digisonix sells a duct silencer that uses ANC to cut more evenly across the frequency spectrum. Each active silencer costs from $300 to $3,000 depending on the size of the system. It can also reduce energy costs over conventional passive silencers. These reduce noise by slowing the air flow in ventilator shafts with "baffles" or obstacles. More powerful fans are needed to propel the air through shafts when baffles are used to cut noise. Active noise reduction eliminates the need for baffles.

In one 500,000sq ft building in Florida, Digisonix silencers yield energy savings of $50,000 a year, according to Dickmann.

Domestic appliances and vehicles, *which once seemed the most promising* areas for ANC, have proved two of the toughest markets.

Whirlpool, the US white goods manufacturer, developed a simple system to reduce the worst vibration in a dishwasher. But the company stopped development because it believed the cost was prohibitively high in a price-sensitive sector. "The home appliances business is very cost-driven," says Luigi Coglio, head of sound research at the company's development centre in Italy.

Domestic appliances and vehicles have proved two of the toughest markets

Electrolux, the Swedish group, tested ANC on all its products. Its market research indicated that customers were willing to pay extra for a quieter cooker hood fan, but not necessarily for a quieter dishwasher. But even for cooker hoods, the market appears limited because of the extra cost – about $100 on the retail price. Nonetheless, the company believes there is a market at the top of the range, and it will use ANC technology in a new hood to go on the market soon.

Three years ago, Nissan unveiled the first production car with ANC. The Bluebird model was sold only in Japan, however, and other car makers that tested ANC felt that the technology was immature or too expensive.

"They believe that noise should be controlled by more conventional means [such as padding or better *design*]," says Dave Quinn, chief engineer with Lotus Engineering, the research arm of Lotus Cars.

"Tomorrow's models will not be so easy to quieten," says Quinn. Their lightweight materials and lighter engines cut fuel consumption but are less effective at deadening engine noise. Adding 10kg of padding conflicts with the aim of reducing weight, so carmakers are *dusting off ANC plans.*

Elesa, a joint venture between Fiat-owned components group Magneti Marelli and Noise Cancellation Technologies of the US, claims a bright future for its car cabin silencing product. This works like the aircraft system and shares the car's hi-fi speakers, trimming the production cost to about $75. The product has been tested on 20 models and clocked up 20,000 km. It cuts cabin noise by around 50 per cent at cruising speeds, the company says.

Vittorio Moreggia, general manager, says the system will be adopted by a European car maker in 1996. Elesa has also developed an engine mount to cut cab vibrations and an exhaust silencer. The latter is furthest from production, but tightening legislation on vehicle pass-by noise is kindling interest, particularly from truck makers.

Vanessa Houlder on the direction of UK government research

Science offers an improved service

As the industrialists, officials and academics *engaged* in crystal ball gazing for the UK's Technology Foresight Programme begin to draw up their conclusions, some themes are emerging.

One likely outcome of the programme, a wide-ranging examination of future technological trends designed to guide research, is that more research will be devoted to the needs of the service sector.

Some officials think that as much as 10 per cent of the government's £3.3bn civil research budget could be redirected over the long term towards projects relevant to service industries.

This is partly because the exercise has opened up new lines of communication between the government and the service sector. Robert Hughes, the junior science minister, describes the Foresight programme as "breaking new ground by covering financial services, retailing and leisure... which use huge amounts of technology but which have not before been closely involved in science and technology policy."

Another reason why more attention is being focused on the service sector is the rapid pace of technological change.

In financial services, for example, the stockbrokers working on the floor of the London Stock Exchange before 1986 had little *use for new technology.* Their modern counterparts, however, are avid consumers of information technology and recruiters of physicists and mathematicians.

Recent advances in communications and electronics are likely to make a significant impact on service companies. The way that services are delivered could be transformed by developments such as the information superhighway and the increasing use of personal computers in the home.

Although some of the technologies expected to influence the coming decades are already in use, others sound like science fiction. Topics discussed include miniature robots to unclog diseased arteries, automatic translation of telephone conversations in different languages, and business meetings conducted in virtual reality.

But even the most ambitious ideas may be more realistic than non-technologists would imagine. Michael Hughes, a director of BZW, the broker, who is chairman of the financial services Foresight panel, said the results of the exercise pointed to faster change than expected. "A lot of what we felt would be there within 10 to 15 years will be there in five."

The Foresight panel, with representatives from banks, actuaries, universities, the Bank of England, the Treasury and the Department of Trade and Industry, identified 68 issues, including the impact of multimedia on retail banking and using data encryption for greater security in transferring money.

Its early findings predicted technological change concentrated in the retail side of the financial services industry, which would be affected by developments such as multimedia and the information superhighway, rather than the wholesale sector which has already seen rapid changes.

The work of the Foresight panel goes beyond examining the technological feasibility of potential *developments to considering the* potential social, skill-based and regulatory constraints.

When the conclusions of the Technology Foresight Programme are published in a few months, its findings will affect the research priorities of government departments, research councils and higher education funding councils. Most areas of government research will be affected over the next few years.

Other predicted outcomes of the programme are less obvious and do not depend directly on government action. The programme is expected to give companies a greater understanding of research conducted by the government, academics and other companies.

Increased awareness of work in other sectors has been particularly valuable, says Hughes: "One of the greatest values of this exercise is the networking among people from different industry groups."

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Artists respond to ancient Egypt

Lynn MacRitchie reviews the 'Time Machine' exhibition at the British Museum

The Egyptian sculpture gallery of the British Museum has been called one of the great rooms of the world. For the last few weeks 12 artists have had the run of it, creating work for *Time Machine*, a collaboration between the British Museum and the Institute of International Visual Arts. Until the end of February visitors will discover not only the thrillingly old civilisation and its relics, but *also* the links between the ancient and modern worlds explored by the new works.

For Henry Moore, the Egyptian Gallery was a source of profound inspiration. Contemplating these magnificent fragments, he realised that it was not *size alone* which made sculpture monumental. "What I found in the Egyptian pieces was a monumentality of vision." The craftsmen who gave this vision form laboured together in a great work of glorification, of their kings and of their gods. Many devoted their lives to this task; they lived in villages near the sites of the royal tombs, passed on their positions to their sons, and were themselves buried in decorated vaults.

At the end of the 20th century, no such supreme vision requires the subjection of individual craft or skill to a total world view. Instead, we live in a world of constant questioning, where the boundaries of society shimmer and shift. The responses of the artists to the challenge set them by James Putnam, curator in the Egyptian department, who had the idea for the show, could not have been more varied.

Stephen Cox, for example, has long been devoted to finding and carving the rare, hard stones favoured by the Pharoahs, and "Flask" made in 1991, sits in elegant harmony beneath a statue of King Amenophis 111 of 1400BC. Kate Whiteford, too, has produced paintings brimming with confidence, finding an echo of her habitual resonating red and green pigments *still visible* on the false door of Ptahshepes, transition point between life and death.

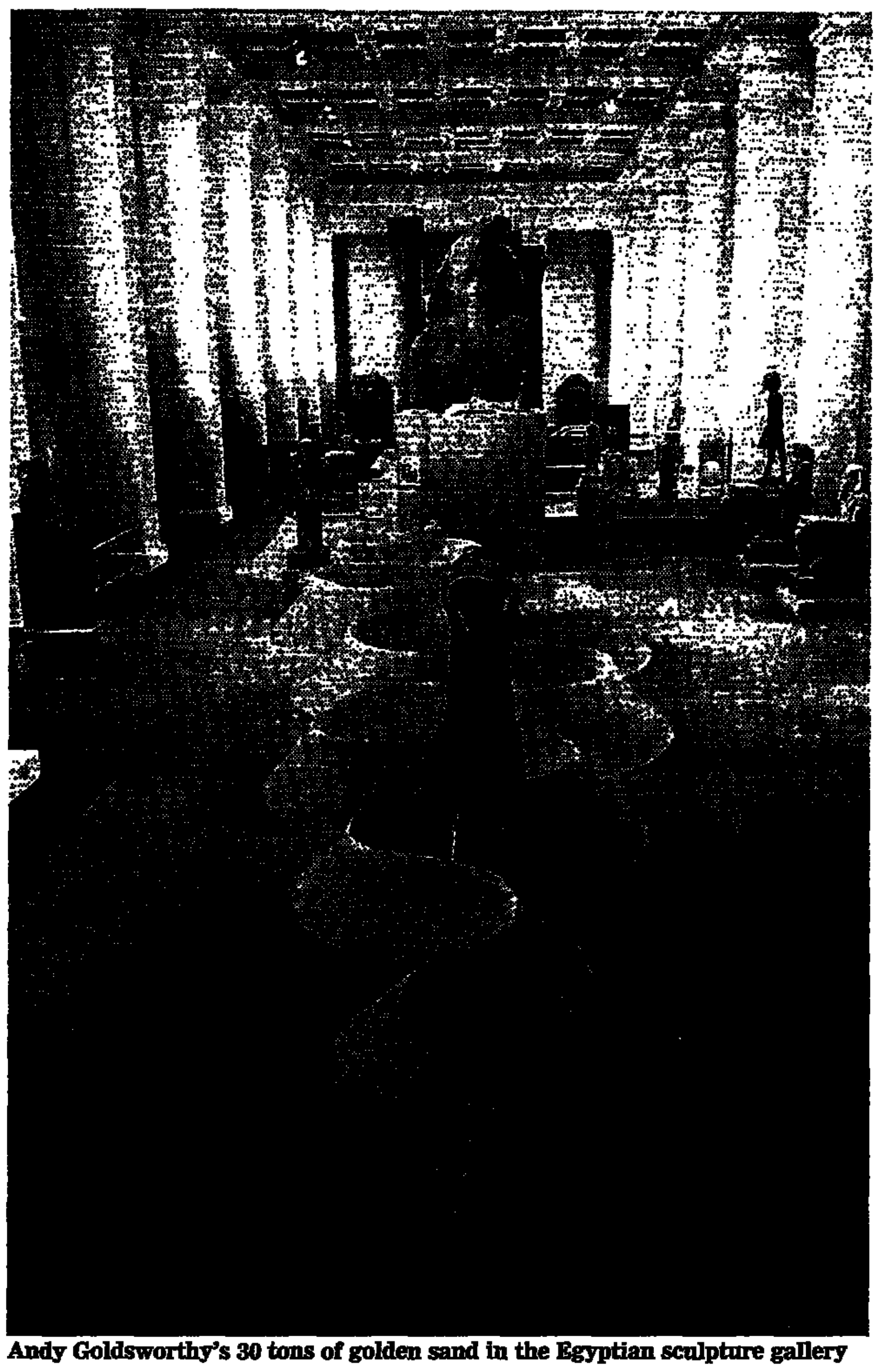
Igor Mitoraj works in a monumental style, his sculptural technique and images dependent on ancient and classical predecessors but presented with a questioning, surrealist twist. Marc Quinn has reprised the perspex cast of his head, which became infamous when filled with his blood, to make a refrigerated receptacle for a hibernating frog. An Egyptian symbol of birth, it seems to be snoozing peacefully despite the bright lights and fascinated onlookers.

Rita Keegan has brought her own family history to set beside that of the ancient gods, choosing a deity of fertility to guard the video screen on which images of her mother and father are mixed with those of the Old Kingdom pair statues of Kaitep and Hetepheres of 2300 BC. David Hiscock takes us into the world of the supermarket by transforming the Rosetta Stone into a bar code, and introduces a touch of modern day idol worship by photographing "the hands of sculptor Kiki Smith wearing ancient rings."

These late 1990s symbols of consumerism and fame seem oddly touching among so much ancient magnificence. Only Alexander Mihaylovich seems to have lost his head completely in the face of such tough competition. His huge painting/construction "Reconstruction" towers above everything else in a piece of kitsch *Las Vegas style* scene-stealing which only confirms Moore's wise words about size.

Present as a photograph only is the installation made from 30 tons of golden sand which Andy Goldsworthy created specially for the exhibition over one weekend, but which could not be allowed to remain in a gallery tramped through by seven million visitors a year. Goldsworthy frequently creates ephemeral pieces outdoors, which are photographed and left for nature to reclaim. This time, for those of us lucky enough to see it before its removal, the snaking golden form brought a symbol of the energy of creation into the heart of the gallery, drawing the great relics together in its coils. Its unique setting gave the sand an added dimension. For a few brief hours, the graven images of the ancient rulers of Egypt, isolated in their London magnificence, once more lorded over the desert from whence they came.

Time Machine, Ancient Egypt and Contemporary Art, British Museum until February 26 1995.



Andy Goldsworthy's 30 tons of golden sand in the Egyptian sculpture gallery

A well-dressed 'Fairy Queen'

It hardly matters that we shall be inundated with performances of *The Fairy Queen* over the next 12 months. The work is so tricky to put on stage that anybody who wants to mount a production to mark Purcell's tercentenary year is likely to come up with a solution different from any others.

The original entertainment was lavishly appointed. Purcell took Shakespeare's play *A Midsummer Night's Dream*, added five extended musical masques, threw in a variety of dances and made sure that the new scenario included as many visual delights as possible, from a tableau of the passing seasons to an exotic garden overrun by dancing monkeys.

It is difficult to imagine its like today; more difficult still to imagine where the money would come from.

Most performances find themselves obliged to do without at least one element: either the actors or the dancers are given the night off. Roger Norrington's concert version last year saved itself the cost of the stage spectacle, but did bring together the play and the music (the play unexpectedly won hands down). Perhaps finding that to be a long evening, the English Bach Festival took the opposite route for its fully-staged production at the Royal Opera House on Sunday.

Not a line of Shakespeare was uttered, but the visual trappings were as rich as the company's finances would allow. The costumes, some of them based on the original designs by Inigo Jones, kept coming in a seemingly endless, no-expense-spared parade. The work of the costumiers and headdress-makers could keep other period productions supplied second-hand for years.

As an evening of music and drama, however, this *Fairy Queen* was less successful. The masques are really five interludes in the play and having five interludes without anything in between makes a lightweight offering. After fighting to keep stage and pit together in the first half, Howard Williams managed to instil a greater sense of confidence after the interval. He had the advantage of an experienced first soprano in Jennifer Smith and valuable contributions from the bass David Mattinson; but the rest of the cast was mixed.

While there are better musical accounts of Purcell's music to be heard elsewhere, no other has recently tried to match the dance to the music in the proper period style, and that was where the main value of this production lay. Under the guidance of the choreographer Stephen Preston, the various dances for the warbling songsters, the green men, the haymakers and the monkeys could all be seen as well as heard. The allegory of Night also seemed especially effective in Jonathan Cocker's sympathetic staging.

Bit by bit the full range of *The Fairy Queen* is coming to light, as each performance sheds its own ray of understanding on the work. The English Bach Festival has shown what a carefully-researched period style can achieve. Next up is English National Opera's projected production, which the safe money can bet will be different again.

R.F.

Richard Eyre to leave the Royal National Theatre

The director of the Royal National Theatre, Richard Eyre, is to leave his post. Eyre, who took on the job in 1988, is planning to go freelance. His decision is not entirely unexpected: when his first five year term expired in 1993 he signed up again for three years only. He is actually adding another few months to his contract before departing in 1997.

After such a long period immersed in the task of running a large company with a turnover approaching £30m a year, Eyre will be broadening his horizons. Last month his first opera production, *La traviata*, opened at Covent Garden.

Taking over at the National from Sir Peter Hall, Eyre quickly made his mark. He was responsible for adding successful musicals, most notably his own production of *Guys and Dolls* and Nicholas Hytner's production of *Carousel to the repertoire*: both went on to commercial success in the West End. He has also invited outside companies to take over the stage, including small but innovative troupes like Complicité and Cheek by Jowl.

He has had a run of artistic and commercial successes, like Alan Bennett's *The Madness of George III* and *Wind in the Willows*, the David Hare Trilogy, and most recently *An Inspector Calls*. During most of his stewardship the National Theatre has enjoyed box office success and critical acclaim.

In the last year Eyre's touch has faltered slightly with a string of American plays, some of which (notably *Johnny on a Spot*, which he directed himself) were poorly received. But any small deficit in 1994-95 will be more than absorbed by the accumulated reserves, and with an attractive programme for next year to be announced today, including Euripides' *The Trojan Women*, his successor should inherit a sound craft. Eyre is also making good in 1995 one of the gaps in his programming, a paucity of plays by new playwrights, with first works from comedy writer Patrick Marber and from Paul Godfrey.

Just who will take over will be a matter for speculation for some time. But among the favourites must be Stephen Daldry, who has progressed through a small theatre, the Gate, to run the medium-sized Royal Court. He might welcome the ultimate challenge and has good links with the National – he directed *An Inspector Calls*.

An even younger contender could be Sam Mendes who on Thursday sees the opening of his first big musical, *Oliver*, the royalties from which would enable him to survive on the director of the National's salary of £80,000 plus, a miserly sum compared with the rewards of regular freelance work.

Another possible candidate, Nicholas Hytner, might find the job restricting after enjoying the variety of directing operas and films as well as plays. And there is always Sir Ian McKellen, already an associate director at the National, as are outsiders Deborah Warner and Declan Donnellan.

Whoever takes on the job will find Eyre a hard act to follow. He has enjoyed a popularity almost unique in his profession and has totally devoted himself to the National. He has built and consolidated the theatre's reputation as one of the most firmly established, highly respected and artistically flourishing arts companies in the country.

Antony Thorncroft

Opera in Paris/**Richard Fairman**

The Kirov's 'Kitezh'

Since the end of the cold war other opera companies from the east have set about marketing themselves in the west, but none has done so with the determination of Gergiev and the Kirov Opera. True to form, Gergiev set out to trump every previous success for the company's Paris visit to the Théâtre des Champs-Elysées, which lasts no less than two months and brings together the Kirov Opera and Ballet for the first time ever outside Russia. The programme includes four fully-staged operas, three full-length ballets and sundry concerts – an awesome exercise.

Unfortunately, the Kirov Opera's opening night proved less than electric. To mark the occasion, the company had commissioned a new production of Rimsky-Korsakov's *The Legend of the Invisible City of Kitezh*, a four-hour grand opera blending mystic pantheism and romantic fairy-tale. It might be asking too much of the piece to suggest that the production should reveal any deeply serious dramatic themes, but all Andris Liépa made of it was a static evening of stand-and-sing in the dustiest Russian tradition.

Ironically, a production like this would have been easier to accept if it had been old (and thus traditional) than, as it was, being advertised as brand new. The sets were a confectioner's delight, every one sickly sweet in a style that looked to western eyes like 1950s kitsch.

It did not help that the Kirov's star of the moment, Galina Gorchakova, had pulled out through illness. The role of Fevroniya, a virgin who wanders through forests communing with nature, embodies all that the opera is about. The Kirov was lucky to have a singer of the stature of Lyubov Kazarnovskaya on hand, but she sounded unsure of herself and her constant ear-to-ear smile, as she frolicked up and down, tried one's patience. One more swish of her skirt and she looked likely to break into a chorus of "The hills are alive".

Even that, though, would have been well sung. Kazarnovskaya has a warm, lyric soprano, probably closer to what Rimsky-Korsakov had in mind for the role than the dramatic Gorchakova. The Prince whom she marries after his death in a kind of mystic Never-Never-Land (cue chorus dressed like wedding decorations) Yury Marusin, white-toned but effective. Gennady Bezzubenkov, as Prince Yury, led his people in prayer with a fine, authoritative Russian bass. Nikolay Putilin brought intensity to his role as Poyarok, who is blinded by the invading Tartars. The smaller roles were strongly cast.

The music of *Kitezh* is generally described as being influenced by Wagner, from whom Rimsky-Korsakov learned much about quiet religious ecstasy, rather less about how to sustain long paragraphs of musical thought. Gergiev could not help the tension slackening, but he did get fine playing from the Kirov orchestra. There was no faltering of tone quality or intonation in the most exposed passages, even at the end of a long evening, as midnight approached. The company's reputation for the finest musical standards remains unblemished.

In Paris, however, the other three operas – Rimsky-Korsakov's *Sadko*, Tchaikovsky's *The Queen of Spades* and Musorgsky's *Khovanshchina* – promise to rouse more enthusiasm.

Kirov Opera at the Théâtre des Champs-Elysées until December 10; Kirov Ballet December 20-31.

Theatre/**Sarah Hemming**

Sketches by Boz

This year offers a bumper selection pack of Dickens in London. Over the next fortnight *Oliver!* opens in the West End, *A Christmas Carol* at the RSC, *A Tale of Two Cities* at Greenwich, and The Oxford Stage Company brings its adaptation of *Great Expectations* to Richmond. With *Martin Chuzzlewit* still rolling along on BBC2 and *Hard Times* scheduled for Christmas Day, there is no escape from his gallery of rogues.

The enterprising Battersea Arts Centre has come up with a little *hors d'oeuvre* to whet your appetite for the meatier Dickens to follow in the shape of *Sketches by Boz*, an evening of newspaper articles by the young novelist. The evening is conceived as an old-fashioned "entertainment" mounted, cabaret-style, in the café, where candles on the tables and food and drink on offer create a convivial atmosphere.

On stage a cast of five work their way through half a dozen sketches adapted for stage by Robert Butler and spliced together in Fair Play Theatre Company's production with sardonic little ditties of the time. A Dickens-like master of ceremonies at a lectern links the scenes and occasionally stoops, with marvellous disdain, to speak the words of some unsavoury character or other. The only other props are a piano, a table and a couple of chairs, and round these the company presents a parade of grotesques and unfortunates.

You can certainly see the young Dickens sharpening his satirical pencil for the characters that were to people his novels. There is the gauche, gaunt Mr Watkins Tottle, whose faint heart is trampled on by an unscrupulous "friend" and an insensitive young woman; there is the Scrooge-like killjoy who delights in ruining his godson's Christening party; there is an artful dodger deported by a judge who never looks up from his paperwork, and a trip to the pawnbrokers reveals a cauldron of miserable souls.

The show gradually spirals downhill until the last sketch brings us to the cell of a condemned prisoner in Newgate, Dickens writing with all his might to convey to his readers the terror and misery of a man in such circumstances.

These are clearly the work of an angry young man, who writes with more heart than head in places – "The Black Veil" is particularly melodramatic. But this evening of miniatures, performed by a spry, witty company, is an illuminating introduction to the young writer who was to become such a household name – and seasonal companion.

Battersea Arts Centre, SW11 (071 223 2223)

INTERNATIONAL ARTS GUIDE

PARIS

GALLERIES
Instut du Monde Arabe Tel: (1) 40 51 38 38
● Delacroix in Morocco: Delacroix's visit in 1832, when he was 34, made a lasting impression on his art; to Jan 15 (Not Mon)
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Kitege: by Rimsky-Korsakov. Director Valery Gergiev at 7.30 pm; Dec 10, 11
● Sadko: by Rimsky-Korsakov. Musical director Valery Gergiev at 7.30 pm; Dec 6, 7, 9
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by Tchaikovsky. Choreographed by Rudolf Nureyev. *Conducted by Vello Pähn/Ermanno Florio at 7.30 pm;* from Dec 9 to Dec 31 (Not Sun)

BERLIN

CONCERTS
Berlin Philharmonic
● Berlin Philharmonic Orchestra: with pianist Ewa Kupiec play Beethoven, Schumann, Britten and Stravinsky at 8 pm; Dec 6, 8, 9, 10
OPERA/BALLET
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● La Traviata: by Verdi. Conducted *by Rizzi, production by Kirst. In* Italian at 7 pm; Dec 11 (6 pm)

BONN

OPERA/BALLET
Oper Der Stadt Tel: (228) 7281
● La Traviata: by Verdi. A new production conducted by Eugene Kohn, with production by Jürgen Rose. In Italian with German surtitles at 8 pm; Dec 12
● The Sleeping Beauty: a new production of Tchaikovsky's ballet. Produced and choreographed by Youri Vámos, conductor Michel Sasson at 7 pm; Dec 10, 11

AMSTERDAM

CONCERTS
Het Concertgebouw Tel: (020) 671 8345
● Moscow Philharmonic Orchestra: conducted by Vassili Sinaiski play Beethoven and Mussorgsky at 8.15 pm; Dec 6
● Nikolaus Harnoncourt: conducts the Royal Concertgebouw Orchestra to play Schumann and Bruckner at 8.15 pm; Dec 7, 8, 9

LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● The Dream of Gerontius: by Elgar. The London Symphony Orchestra with mezzo-soprano Anne Sofie Von Otter conducted by Sir Colin Davis at 7.30 pm; Dec 11
Festival Hall Tel: (071) 928 8800
● Beethoven Series: Philharmonia Orchestra conducted by Nikolaus Harnoncourt. Symphony No 8 and 6 (Pastoral) at 7.30 pm; Dec 10
● Choral Classic Series: Royal *Philharmonic Orchestra with soloists* Judith Howarth (soprano), Ruby Philogene (contralto), Ian Bostridge (tenor) and David Wilson-Johnson (bass) perform Handel's, 'The *Messiah'* at 7.30 pm; Dec 9
● Philharmonia Orchestra: with conductor Charles Dutoit and pianist Peter Jablonski play Tchaikovsky (piano concerto No. 2) and Shostakovich (symphony No.5) at 7.30 pm; Dec 6, 8, 13
● Royal Philharmonic Mariinsky-Kirov Series: Royal *Philharmonic Orchestra with* conductor Valery Gergiev mezzo-soprano Larissa Diadkova and the Royal Choral Society perform Prokofiev and Rimsky-Korsakov at 7.30 pm; Dec 12
● Royal Philharmonic Orchestra: with conductor Vladimir Ashkenazy and pianist Shura Cherkassy play Rubenstein's piano concerto No. 4 and Tchaikovsky's Manfred Symphony at 7.30 pm; Dec 7
● *The London Philharmonic:* conducted by Bernard Haitink, with soloists Karita Mattila (soprano), Ann-Murray (mezzo-soprano), Keith Lewis (tenor), Robert Lloyd (bass) and the London Philharmonic Choir perform Beethoven Symphonies Nos. 1 and 9 (Choral) at 7.30 pm; Dec 11
GALLERIES
Royal Academy Tel: (071)439 7438
● The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Ariadne on Naxos: by Strauss. A Graham Vick production at 7.30 pm; Dec 8
● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7 pm; Dec 10, 13
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Dec 6, 9, 12
Royal Opera House Tel: 071 240 1200
● Ashton Remembered: celebration of founder choreographer Fredrick Ashton. Includes pieces by Mendelssohn, Offenbach, Massenet and Walton at 7.30 pm; Dec 9
● *La Traviata: by Verdi. A new* production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at 7.30 pm; Dec 8, 13
● Mixed Programme: includes Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 6, 7, 10 (2 pm)
● The Sleeping Beauty: a new *production of Tchaikovsky's* ballet. Produced by Anthony Dowell, set designed by Maria Bjornson at 7.30 pm; Dec 12
THEATRE
Haymarket Tel: (071) 930 8800
● Arcadia: by Tom Stoppard, directed by Trevor Nunn. Two present day historians investigate a possible scandal involving Lord Byron at 7.30 pm; (Not Sun)
Lyric Hammersmith Tel: (081) 741 2311
● Mirandolina: by Carlo Goldini, directed by Dalia Ibelhauptaite. With Caroline Quentin at 7.30 pm; to Dec 10 (Not Sun)
National, Cottesloe Tel: (071) 928 2252
● Landscape: written and directed by Harold Pinter. With Ian Holm and Penelope Wilton.; to Dec 6 (Not Sun) (Not Mon)

NEW YORK

GALLERIES
Brooklyn Museum Tel: (718) 638 5000
● Indian Minature Paintings: 80 jewel-like paintings from the 15th -19th century; to Jan 8 (Not Mon)
Metropolitan
● Early Renaissance Florence: 100 *panel paintings and manuscript* illuminations by masters of the Gothic style; to Feb 26 (Not Mon)
● Origins of Impressionism: 175 paintings by Parisian artists of the 1860's; to Jan 8 (Not Mon)
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Don Giovanni: by Mozart, sung in *Italian at 8 pm; Dec 6, 10*
● Lady Macbeth of Mtsensk: by Shostakovich at 8 pm; Dec 7, 10
● Madama Butterfly: by Puccini at *8 pm;* Dec 8
● Peter Grimes: by Britten. English at 8 pm; Dec 12
● Rigoletto: Italian opera by Verdi at 8 pm; Dec 9, 13
THEATRE
Joseph Papp Public Theatre Tel: (212) 598 7150
● Simpatico: directed by Sam Shepard. Set in the world of thoroughbred horseracing, with Beverly D'Angelo, Marcia Gay Harden and Ed Harris at 8 pm; to Dec 11 (Not Mon)
Roundabout Theatre Company Tel: (212) 869 8400
● The Glass Menagerie: by Tennessee Williams. Director Frank Galati, cast includes Zeljko Ivanek, Julie Harris, Calista Flockhart and Kevin Kilner at 8 pm; to Jan 1

WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● An Evening of Opera and *Chamber Music: Selections from a* new opera and chamber music by Soong Fu Yuan. With soprano Yan Yan Wang, tenor Robert Brubaker, bass Don Yule, the Camerata Quartet and conductor Fy Soong at 7.30 pm; Dec 11
● National Symphony Orchestra: conducted by Eiji Oue play Mahler and Tchaikovsky at 8.30 pm; Dec 6 (7 pm)
GALLERIES
Freer Gallery Tel: (202) 357 2700
● Chinese Calligraphy: exhibition focuses on varied uses of calligraphy from the 7th-19th century; to May 1
Sackler Tel: (202) 357 2700
● Landscape as Culture: Lois Conner travels through Asia *recording architecture and* landscapes with her 100-year-old banquet camera; to May 30
THEATRE
Arena Stage Kreeger Theater Tel: (202) 554 9066
● Misalliance: by Bernard Shaw, directed by Kyle Donnelly; to Jan 8

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NBC/Super Channel: FT Reports 1230.

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WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

THE FT INTERVIEW: Ingvar Carlsson

Undaunted by hurdles ahead

For a man who has just taken charge of a country with one of the biggest holes in Europe in its public finances, Mr Ingvar Carlsson, Sweden's recently restored Social Democratic prime minister, shows a remarkable degree of confidence about the task facing him.

Sweden will have a budget deficit in the current fiscal year of SKr200bn (£17bn) – about 13 per cent of gross national product. The state debt, the fastest-growing among industrialised countries, will top 90 per cent of gross national product next year.

The financial markets remain nervous about the new government's ability to reconcile its commitment to the country's big welfare system with the need for drastic action to cut public spending. Mr Carlsson, however, insists that the job will be done.

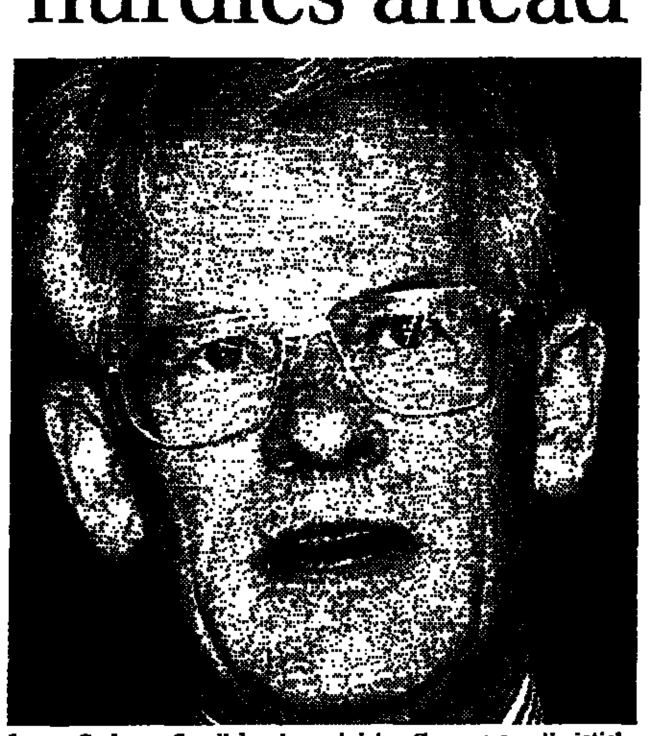
"It went very rapidly in the wrong direction and I am very optimistic about the possibilities to change this again," he declares.

He ticks off a list of measures. A package of tax increases (the largest for years in Sweden) and spending cuts announced last month will shave SKr67bn from the deficit. These come on top of SKr18bn in cuts inherited from the previous centre-right government of by Mr Carl Bildt, the radical leader of the conservative Moderate party. Further measures worth another SKr20bn – mainly cuts – are promised in the January budget.

"Honestly, I don't think the market is aware yet of what we are doing," he says. "But they will see the facts. [The measures] will stabilise the total Swedish debt before 1998, which was the target we set in the election campaign. I think it is possible in 1997."

Nor is Mr Carlsson worried that his government's forecast of more than 3 per cent growth next year – on which the deficit reduction plan depends – is ahead of most market expectations.

"I met a large group of industrialists only last Monday and they say all forecasts now are underestimating the activities already taking place in our companies. I don't think we are over-optimistic. Now there is a real swing in investment and demand is also coming in the domestic market, so I think we will have a very good year in 1995."



Ingvar Carlsson, Swedish prime minister: 'I am very optimistic'

So far, the markets have reserved judgment on the government's economic policies: long-term interest rates in Sweden are 3.5 percentage points higher than in Germany. Mr Carlsson knows that, if the January budget fails to convince the markets, continuing high interest rates will dog his efforts to cut unemployment.

But in the meantime, the prime minister is clearly enjoying his return to power, savouring his clear election victory in September and the Yes vote in last month's referendum over membership of the European Union.

The silver-haired Mr Carlsson, party leader since 1986, exudes relief that the political status quo has been restored, after Mr Bildt's coalition set out to transform Sweden into a full-blown liberal market economy.

Instead, Mr Carlsson is reassured that Swedes flocked back to the Social Democrats (in power for more than 50 of the last 60 years) in order to preserve their welfare state – as far as present straitened circumstances allow.

Even though he campaigned in favour of EU membership, Mr Carlsson will take a markedly more cautious and traditional approach to the Union than his predecessor. Mr Bildt saw joining the EU as part of a strategic swing – both politically and economically – away from Sweden's tradition of aloof isolation from the rest of Europe. He spoke, for example, of Swedish neutrality as having lost its meaning.

Mr Carlsson – whose party held out against EU membership for years, primarily to safeguard the country's neutral stance – rejects the idea that neutrality is dead. He knows that almost half of all Social Democrat supporters voted against membership in last month's referendum and is keen not to widen the gulf further.

He is careful to emphasise that Swedish military non-alignment and neutrality are still endorsed by parliament. Sweden will become an observer in the Western European Union, the EU's defence organisation, but not a full member – nor will it join Nato.

"I think it is not in the interests of Nato or of Sweden to change the basic security policy in northern Europe," he says. "We have had a very stable situation in northern Europe for many years with the kind of security policy we have had so far, and I think it could be dangerous to give Russia the feeling that we are encircling them.

"Of course, with the Berlin Wall torn down in 1989 we have a completely new security situation in Sweden. The old, very difficult policy for us between east and west – that's gone. But when you come to the core – are we prepared to give up military non-alignment? – the answer is no."

On social policy, however, Mr Carlsson and his government will aim to take a leading role in the EU's fight against unemployment. With unemployment in Sweden having reached unprecedented levels, at about 13 per cent of the workforce, the Social Democrats support concerted employment policies for the EU. Mr Carlsson supports moves to add conditions on employment levels to the fiscal and monetary criteria set at the Maastricht summit for European monetary union.

"I think that more and more politicians are aware that, if Europe doesn't better solve the unemployment problem, it is not only a problem for individuals, it is a problem for European democracy," he says. "If we in these good years have 8-10 per cent unemployment and we meet the next recession from that very high level, I think we will enter a very dangerous situation."

The prime minister will enter the debate on unemployment at the EU summit in Essen at the end of this week, pushing for action to implement recommendations made in the policy "white paper" produced by the EU Commission in December 1993. He cites infrastructure investment, active measures to get jobless workers into work schemes and wide-ranging moves to upgrade education.

"I think there will be a struggle about it," says Mr Carlsson. "But I am glad to be a part of the struggle and not having to watch it from the outside as a non-member. Now we can be on the inside and I look forward to that."

Hugh Carnegey

Joe Rogaly

A dangerous battleground

You may not believe the passage I am about to cite unless you heard it with your own ears, but here it is: "The United Kingdom – the greatest cradle of culture and academic and scientific and artistic and political achievement in modern times – that's not some trifle to be lightly set at risk." This anachronistic fantasy was purveyed by Mr John Major, in a speech written for delivery at last Friday's conference of Conservative women. An ancient mirage of national glory was his product, the flag his packaging. "It is," said the prime minister, referring to the country he runs with such effortless brilliance, "the highest cause this party knows – and we will defend it with every fibre of our being."

There you have it. England beats Graeco-Roman civilisation into a cocked hat. The Chinese, the Japanese, the French, the Germans, the Egyptians, the Italians, the Indians, the Persians – oh, why bother to list them, they are all foreign, and they have nothing to teach the British. Music, painting, philosophy, science, the very act of learning were all invented here. There is a certain sadness in the vainglorious, grandiloquent rodomontade with which some of our politicians express their nostalgia for a faded past. Thank heavens there are fewer than six years to endure before 2000. Then it should be clear to everyone, even Mr Major, that the 19th century is over.

Sorry about that moment of passion. I was looking through the prime minister's address to the Tory ladies when the above-quoted nonsense leapt out. The business of the day is cool analysis of Mr Major's attack on Labour's proposals for constitutional reform, and the opposition's response. The matter can be disposed of quite succinctly. Labour is right on the merits of the case. The prime minister may be right on where the political advantage lies. Mr Major believes that his warning that devolution of power to a Scottish parliament would lead to the break-up of the UK was an important element in his election victory of 1992; the opposition parties have nevertheless persisted with their modest proposals for constitutional change.

These include regional assemblies, the exclusion of hereditary peers from the House of Lords, a referendum on electoral reform, a bill of rights, a freedom of information act, and the curtailment of the crown prerogative, the unwritten law that permits ministers to legislate in the name of the monarch. Most of these have been propounded in this space, as elsewhere. Whether or not you agree with any of them or indeed the package as a whole depends on whether you regard the British executive as sufficiently checked and balanced by other branches of government – and whether you think our system is producing good governance.

You can see the Tory train of thought. Never mind the details: concentrate on the Queen, the institution, the flag, the nation

The argument has been rehearsed many times, principally among the chattering classes, but also through pressure groups such as Charter 88. This week the audience may have been further enlarged because Mr Jack Straw appeared on a TV programme in which he repeated his well-known view that the monarchy ought to be retrenched, limited to its symbolic functions. That would protect it from misuse as camouflage for the elective dictatorship. The Conservatives grasped the opportunity. "Labour attacks Queen" touches the nationalist nerve Mr Major hoped to reach when he spoke last Friday. You can see the Tory train of thought. Never mind the details of the proposals by the opposition's spokesman on home affairs. They are merely common sense. Forget the personal life of the Prince of Wales, or the difficulties into which the minor members of the house of Windsor have stumbled. They are merely show business.

Concentrate on the Queen herself, the institution, the flag, the nation. Mr Peter Lilley has done so. "Labour voters are usually in my experience very conservative, very pro-monarchy, very pro-Britain," the secretary for social security observed at the weekend. There has been plenty of time to get this kind of thinking into people's heads. It was in 1838 that Peel delineated as Conservative principles "the maintenance of the Peerage and the Monarchy – the continuance of the just powers and attributes of King, Lords, and Commons..." I, and perhaps you, may think that a century and a half later some rational modifications would improve our polity, but our elevated opinion may carry little weight when set against bar-room salutes to "Queen and Country".

Yet Labour has no choice but to do battle on this dangerous ground. In nearly every other area it is the "me too" party. Privatisation? Labour will leave untouched whatever it finds in the private sector. Tax increases? Not us, guv. Schools? We'll do what the Conservatives do, but rename it. Health? Ditto. Increase public spending? Perish the thought. Changing the nature of the state is another matter. Labour will undertake what its leader, lovingly quoted by Mr Major, has called "the most extensive package of constitutional reform ever proposed by a British government". That, said the prime minister, was a "sort of teenage madness".

You could throw in one other small item – the European Union. Broadly speaking, Labour is for it, the Conservatives increasingly against it. It was Lady Thatcher who dramatised the connection between Europe, the monarchy and nationhood when, as prime minister, she spoke of the single currency as a threat to the Queen's head on the coinage. Conservative Eurosceptics tend to be Peelites; they view the institutions of England, and the character of the English, as strengths that "enabled this country, in her contests and the fearful rivalry of war, to extort the admiration of the world".

That may have been stirring stuff in 1838. Today, with the nation in reduced circumstances, the British constitution clearly needs modernising. To say that what Parliament ordains is all the law you need is no longer tenable. If Ulster can have an assembly, why not Scotland? The Crown must adapt to survive. The Commons should sit for a fixed term. The people should be given a choice on electoral reform. Labour must counter emotional declarations of greatness with suchlike reasoned propositions. Alas, bombast usually wins. Reform sounds sensible to me. But does it stand a chance against "the Queen, God bless her"?

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

No link between pay and performance

From Mr Donald B Butcher.

Sir, The chairman of British Gas (Letters, December 1) bases his argument for the increases in directors' salaries on two premises, performance and comparability – both of which provide shaky foundations for his case.

The chairman writes: "It is his performance that counts." All the evidence so far published in the UK and in the US demonstrates zero linkage between directors' pay and the performance of their companies. Also widely recognised is that lack of performance never leads to reduced pay. The "significant annual cash compensation" which the chairman refers to will ensure that pay at the top of British Gas is kept high regardless of the future performance of the company. Private shareholders object strongly to this.

The comparability argument will not carry any weight with the majority of private shareholders, because the remuneration of the highly paid executives of other UK companies, which British Gas now wishes to emulate, has been fixed by a close-knit group of directors. Result? Top pay increases far exceed increases in company profits, in overall output of the economy or in the pay of other workers.

The chairman refers to the planned "dramatic" £600m reduction in costs. British Gas's operating costs excluding exceptional charges have increased from £6.9bn in 1990 to £9bn in 1993, a 30 per cent increase. The planned reduction is, therefore, some 6 per cent of present operating costs. Dramatic?

British Gas should put this remuneration package to the vote at the next AGM. This would at least, if carried, bestow some legitimacy on the company's intended action. Private shareholders who do not support the company's intended action may choose to give us their proxies.

Donald B Butcher,
chairman,
UK Shareholders Association,
12 Burgh Heath Road,
Epsom,
Surrey KT17 4LJ

Small price for best in the industry

From Sir Leslie Smith.

Sir, I would like to add a footnote to Mr Giordano's reasoned letter to you (December 1).

My spell of duty with the British Gas Board covered the concluding years of nationalisation and the first few years of privatisation. The effects of the change were far more profound and dramatic than can be generally realised and were felt throughout the organisation.

Prior to the change, all real authority lay with the ministry. The board could propose but not decide. Senior executives saw themselves as fulfilling ministry requirements. They were remunerated accordingly at rates close to civil service rates (with the concomitant benefits of jobs for life and pensions). Promotion depended to a great extent on the availability of "dead man's shoes". If success was obtained (such as bringing North Sea gas into British homes), it was entirely due to the relentless energy of the chairman of that day.

Overnight, the board was required to assume responsibility for customers, shareholders, employees and the country. The loss of monopoly destroyed any remaining vestiges of "cosiness". Some managers found they could not live with the new situation and had to go. For the first time, new blood had to be brought in. The company was now exposed to the full weight of competition from British, American and French majors. Only the best would do and, fortunately, Dick Giordano and Cedric Brown are numbered among them.

Of course, the divesting of responsibility from the ministry should have provided a substantial benefit to the national economy by the release of many civil servants, and not just in the gas industry.

This benefit in itself would have offset Cedric Brown's salary many times over.

Leslie Smith,
Forston Farm,
Forston,
Dorchester,
Dorset DT2 7AB

High-flyers of the wireless age

From Mr John B Francey.

Sir, The reference to radio licences in your Letters column (November 26-27) reminded me of the early days of wireless when my older brother, Bill Francey, then a schoolboy, applied for and obtained an experimental licence for reception and morse transmission for the sum of 10 shillings and sixpence. It was signed by an up-and-coming politician called J Ramsay MacDonald.

My brother in the course of his experiments erected a 100ft aerial between our chimney and the flagpole of a nearby factory, an aerial which was responsible for the sudden death of many unsuspecting seagulls before my father made him dismantle it and re-erect it in our loft.

Whether it was equally effective would be known only to my brother's fellow experimenter, a young chap who lived about 10 miles away, who had a great interest in flying and wanted to improve his morse proficiency.

The young man's name was Jim Mollison.

John B Francey,
59 Aytoun Drive,
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Renfrewshire,
PA8 6DD

Poor Norwegians, in control of their own destiny

From Mr Allan Beattie.

Sir, Pity the poor Norwegians. They will not be allowed to contribute to the cost of inflated EU bureaucracy: they will not have the privilege of paying CAP prices for their food.

They will not enjoy the economic blight produced by an artificially fixed exchange rate – or a single currency, which is the same, but permanent.

Worse still: they will have to make all their own decisions about how their lives should be run.

Really, my heart bleeds for them.

Allan Beattie,
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L-7473 Schoenfels,
Luxembourg

Trying to be all things to all music creators

From Mr Wayne Bickerton.

Sir, The report by Alice Rawsthorn of the pending Monopolies and Mergers Commission investigation into the Performing Rights Society ("MMC to probe Performing Rights Society", December 1), while inevitably stronger on accusation than our response, neatly illuminated a collecting society's fundamental problem.

The top stratum of performing rights earners – and U2 was extensively quoted – whose proportional contributions to administration costs really make the work of the PRS possible, wants more income, more quickly, for lower administration deductions. Huge concerts, major world tours and continual networked broadcast of their compositions gives them the right to demand this, they believe.

Yet the composers of what the Office of Fair Trading referred to as "less popular forms of music" want something for any and every performance of their works – no matter where, no matter how small the licence income for the performance may have been, and no matter how great the administrative cost may be. Small concerts, no world tours and rare or non-existent broadcasts give them the right to demand this, they believe.

Because the UK has no other national performing right society, PRS is a *de facto* monopoly, and understandably will attract the attention of the OFT and the MMC from time to time. We have spent 80 years trying to be all things to all music creators, and we are tackling head-on the levels of administration cost engendered by that aim.

It is not in the interests of some of our critics to admit that their demands are already being pragmatically met, but we are confident that the MMC inquiry will show that our policies and practices are in the best interests of our membership as a whole.

The complex nature of our job is highlighted by the fact that even the FT totally misunderstood part of the issue. You reported that PRS now only collects "royalties" on live performances at 550 "big venues". PRS total 1994 income from all sources will be more than £160m. Our live performance licence income in 1994 totals about £13m of that. We license and collect fees from some 40,000 venues where live music is played. We distribute royalties partly on the basis of programme information from a sample of big, medium and small venues.

Of the £13m referred to, only £750,000 came from classical performances.

I wonder how many of the companies featured in the FT's pages have shown – as PRS has – income growth well in excess of inflation, and steadily falling costs, for five years, during and emerging from a period of deep recession.

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Tuesday December 6 1994

The danger of a cold peace

If any such warning was still needed, President Boris Yeltsin's blunt words at the CSCE summit in Budapest yesterday gave notice that the post-cold war honeymoon is over. He angrily rejected the plans of the Nato alliance to expand to the east, without including Russia itself, and warned that Europe was in danger of sliding from the cold war into a "cold peace".

President Bill Clinton's rejoinder, that no country would be allowed a veto on Nato enlargement, sounds all very well. But it is his administration's determination to accelerate that process which has infuriated Moscow. It suggests that the Nato allies in general, and the US in particular, have greatly underestimated Russian sensitivity to being left out in the cold once again.

Of course the western allies should not indefinitely appease the Russian government which, in spite of its unpredictable vacillations in matters of economic reform, has proved that it remains a tough and sophisticated player of international diplomacy. Its tactic has been to remain persistently ambiguous, extract concessions, and then still fail to deliver its part of the bargain. That is what Mr Andrei Kozyrev, the Russian foreign minister, did yet again in Brussels last week, when he refused to finalise plans for a military co-operation programme with Nato.

Yet the west must at the same time understand and respond to the extraordinary sensitivity of a humbled superpower, whose economy is in tatters and whose proud military establishment is grumbling and potentially mutinous. It was precisely to reconcile the conflicting demands of the central and east Europeans for full Nato membership, while keeping the Russians slightly more at arm's length, that the Partnership for Peace programme was devised: a half-way house to enlargement, and a deliberate fudge. It remains valid today, and full Nato membership for the central and east Europeans should not be over-hasty. Indeed, the US urge to accelerate the process seems counter-productive. Is it really sensible to extend a security guarantee up to the former Soviet border – indeed up to the Russian frontier, if the Baltic states are included – which Washington itself is unlikely to implement?

What the central and east Europeans really need today is economic security, not military defence. Access to western markets, followed by full membership of the European Union, is therefore a far more urgent priority than full Nato membership. It is also a process which is much easier for the Russians to accept. Indeed, Moscow has been positively enthusiastic about Finland's prospective EU membership, precisely because it will bring the Union to its very borders. It means that western Europe will become more aware of the economic development needs of Russia itself, and more willing to contribute, the Russians believe.

If the EU continues along its path of strengthening the European defence pillar of Nato through the Western European Union, future east European members of the EU will be getting enhanced military security through the back door. It will lack the US security guarantee, but that seems unrealistic anyway.

There is no doubt that the EU enlargement process to the east will itself prove extremely difficult, not just for the east Europeans, but for the current members too, who will have to pay for it. They have barely started to calculate the cost, nor to define what reforms will be needed. But it is the right road forward, and one which will not cause Europe simply to slide into a "cold peace".

A transport levy

Mr Kenneth Clarke last week sweetened the pill of renewed cuts in public infrastructure investment by promising that the government's Private Finance Initiative would fill much of the gap. On paper, however, the UK chancellor's grand Budget forecasts were a triumph of hope over two years' disappointing experience.

Most are agreed that modern governments should seek new ways to involve the private sector in transport and other large-scale infrastructure investments. The UK government's answer, first launched in 1992, was the PFI. This may yet win over the many doubters, but only a handful of projects has managed to meet the combined objections of the Treasury and would-be private investors.

The Corporation of London yesterday proposed a rather different, and promising, approach to bridging the private-public divide: an "Infrastructure Fund for London", financed by a levy on local businesses, to be raised alongside business rates. The fund, if supported by a majority of local companies, would be used to support efficiency-enhancing investments throughout the area, thus, it is hoped, raising London's commercial values and attractiveness to investors.

The Treasury – and the government – will have many quibbles with the proposal. But a business levy would have the advantage of linking payment for infrastructure improvements more directly to the ultimate beneficiaries, namely local property owners. Many details have yet to be worked out, but the government would be foolish to let its fondness for PFI blind it to the benefits of a better way.

Can pay, will pay

The insurance companies and pension funds that control the largest block of shares in British Gas have been among the least vocal of those complaining about the 75 per cent pay rise granted to the company's chief executive, Mr Cedric Brown. Is it realistic for the government to look to these instinctive non-interventionists to exercise a restraining influence over directors' remuneration?

Realistic or not, it is certainly logical, since institutional shareholders are the legal owners of a majority of the equity in British industry and commerce. If runaway pay packages in the boardroom are a symptom of the divorce between ownership and control in the corporate sector, then some tightening of ownership discipline would be a legitimate way to address the licence that prevails in the absence of any objective benchmark or proxy for market value.

The problem arises because of fundamental conflicts of interest. The non-executive directors who sit on remuneration committees are usually executive directors of other companies and have little interest in keeping a lid on pay. The remuneration consultants who advise them have a greater interest in pleasing the directors than the ultimate beneficial owners. The question is how to inject a greater degree of independence into this over-cosy dialogue.

Greater transparency would certainly help the institutions to exercise more effective oversight. An obvious starting point would be to ban the practice of bundling up resolutions at annual general meetings, so that contentious issues of corporate governance are packaged together with resolutions with wider shareholder appeal on which shareholders are asked to exercise a single vote.

Nor is there any reason why directors' pay should be exempted from individual disclosure. So, too, with other parts of the remuneration package. While the accountancy bodies appear to have doubts about the practicability of valuing directors' share options, City practitioners mark options to market value daily on the basis of widely accepted computerised models which would be perfectly adequate for annual disclosure purposes. An equally obvious loophole in the law is the failure to require disclosure of the large actuarial costs to the company of increasing directors' pay in the year before retirement.

The usual argument against putting remuneration packages to a shareholder vote is that incoming senior executives could not be persuaded to take new jobs if the terms of their contracts were subject to a shareholder veto. Yet this rests on a misunderstanding of the institutions, which – unlike some members of the cabinet – are not instinctively hostile to high pay. Still less are they keen to damage the competitiveness of British industry. To the extent that incoming executives need additional reassurance, this could be provided by companies publicising a clear statement of remuneration policy, with which any new appointment would comply.

The bigger difficulty lies in the institutions themselves, since they, too, as legal rather than beneficial owners, are subject to conflicts of interest. Insurance company directors have their own pay packages to think of, while pension fund trustees are often creatures of the company. Even with greater transparency, they have no great incentive to deny international-style pay packages to executives who run companies with predominantly domestic revenues. In the absence of greater accountability for the institutions themselves, the incentive to play an active watchdog role will be weak.

A senior official at Oftel, the telecommunications watchdog, was heard muttering recently: "What do we do if Mercury dies?" Yesterday's announcement of retrenchment at the UK telecommunications company reveals the question to be far from academic.

Clipped wings for Mercury

Andrew Adonis and Alan Cane on the pressures behind retrenchment plans at the UK telecoms operator

Less than a month ago, Mr Mike Harris, Mercury's chief executive, was suddenly reassigned to another post in the Cable & Wireless group, of which Mercury is a part. The new management, led by Mr Duncan Lewis who was previously responsible for the north American operations of Cable & Wireless, insists the company has now laid the foundations for future growth.

But some analysts believe that the company's best days are behind it as a serious competitor to British Telecommunications, the UK's telecoms giant which has just celebrated its tenth anniversary in the private sector.

Yesterday Mercury announced job cuts totalling 2,500, withdrawal from a number of services including payphones, directory enquiries, mass market entertainment and customer premises equipment. It also listed the business areas – including telecom services for the oil and transport industries – on which it intended to concentrate and said its residential services would be provided through partnerships with cable companies.

The changes will not affect Mercury One-2-One, the mobile phone company that is a separate venture.

There have been repeated warnings that Mercury was under pressure. Analysts have been sounding alarms for more than a year, and statistics have long been available highlighting Mercury's difficulties.

The most telling have related to the company's profitability and the erosion of its competitive edge over BT, upon which most of Mercury's business depends.

Mercury's figures for the half year to September 30 revealed the extent of the company's plight and appear to have been the immediate spur for yesterday's bloodletting. They showed a fall in operating profit – down 3 per cent on the same period for 1993, with only a modest growth in turnover and barely half the level of growth in traffic witnessed in 1992 and 1993.

Much of the problem lies in Mercury's declining competitiveness. In the business market, the gap between Mercury's charges and BT's has been narrowing fast (see chart). Savings of up to 20 per cent were common on long-distance prices in the late 1980s. But for large businesses, the savings now on offer can be trifling, allowing for the costs of switching and volume discounts available from BT.

It is a similar picture in the residential market, which has been Mercury's main target for the past two years. A detailed BT study, published in October, claimed that after volume discounts and bonus schemes, BT worked out cheaper than Mercury not just for low-value residential users, but for many home users with large bills – Mercury's target market. The figures, verified by consultant Coopers & Lybrand, were persuasive, and Mercury failed to produce a convincing rebuttal.

As Mr Laurence Heyworth, telecoms analyst at Robert Fleming, the brokers, puts it: "Mercury has seriously under-estimated BT, which over the past five years has ruthlessly cut costs and become a strong competitor on price as much as quality."

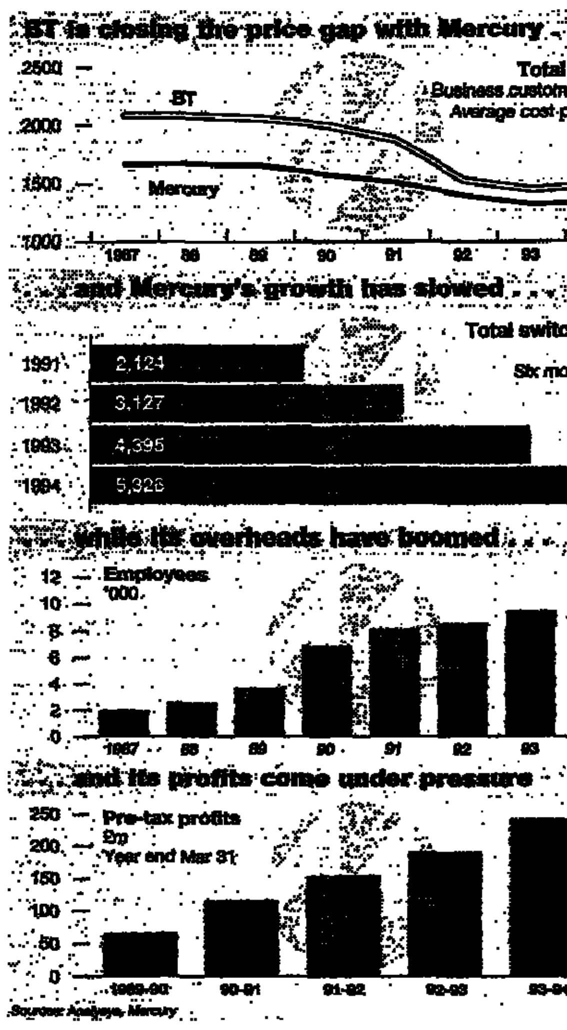
Oftel has been an accomplice in BT's transformation, since its tough price cap on the former monopoly operator has been a significant spur to its productivity improvement.

The regulatory vice was further tightened by the government's decision in 1991 to allow new entrants into the telecoms market to compete with BT and Mercury. The ending of the BT/Mercury duopoly, which had been in place since BT's privatisation, has exposed Mercury to intense competitive pressure.

In the business market, a host of new operators has focused on large companies, severely denting Mercury's business. Worldcom, one of the largest of the new operators, regards Mercury – not BT – as its principal competitor, and quotes its prices as a percentage saving on Mercury's "best business price".

A recent survey of 100 large business users by broker James Capel concluded that Mercury was being "squeezed from all sides" and is set for only modest growth in the next few years.

Ironically, given the company's early success as the lean David fighting against a bloated BT Goliath, Mercury now finds itself up against competitors with far slimmer structures and lower cost bases than its own. Energis, the subsidiary of National Grid that recently launched a national fibre-optic network using the Grid's pylons, has about 400 employees, compared with Mercury's 11,400.



In the residential market, cable TV companies have made significant inroads into BT's market in urban areas. They use Mercury for much of their long-distance traffic, but they have used the proliferation of long-distance carriers to force down the charges.

Yesterday's surgery marks a change of strategy, the end of Mercury's attempt to present itself a mini-BT offering a full range of services.

The closure of the payphones division is the most visible evidence. The company is also pulling out of the mass consumer market; it will continue to provide services to residential customers but largely through third parties such as cable television operators. Mr Lewis says: "We cannot address the mass consumer market; the young upstarts of the cable television business are the kind of people we will partner."

More telling, perhaps, is Mercury's decision to withdraw from supplying equipment such as exchanges, to business customers. Its supply activities were built on the £320m acquisition of Telephone Rentals in 1988, hailed by the company at the time as an act of "industrial logic" to extend Mercury's reach.

Mr Lewis sees two models for Mercury to follow. One, outside the telecommunications sector, is Compaq, the US personal computer company that has become a world leader by providing quality systems at low prices.

The other is MCI, the US telecommunications company whose rapid growth in the late 1980s was based on confronting AT&T, the largest US telecoms operator, in its core markets. MCI – which, ironically, last year forged a \$5.3bn alliance with BT – represents the best practice in telecommunications for Mr Lewis.

MCI was one of the models used by Mercury in deciding to shed 20 per cent of the workforce.

"We are committed to benchmarking our operations against best-in-class carriers' practices and financial profiles," says to Mr Lewis.

In facing the current challenge, Mr Lewis boasts of his US experience. Analysts argue, however, that MCI is a company that has done most things right, while Mercury has missed its opportunities. Even if costs are brought under control, growth has to be stimulated.

Furthermore, Mercury is only one of the businesses of Cable & Wireless – and one of the less successful. Although C&W remains loyal to its offspring in public, in private some of those in charge of its more successful businesses are critical.

Last year Asia accounted for nearly half of C&W's £4.7bn turnover, and Hong Kong – C&W owns 57.5 per cent stake in Hongkong Telecom – has long been the jewel in its crown. Hongkong Telecom accounted for 64 per cent of its operating profit last year. By contrast, in the competitive UK market, C&W's turnover was three-quarters that in Hong Kong, yet its operating profit was less than a third as great.

Until now, C&W has resisted bids for its UK subsidiary. Earlier this year it even turned down a partnership deal with AT&T that would have brought Mercury into the US group's "Worldsource" international alliance geared to the telecoms needs of multinationals.

The decision to close the door on AT&T aroused anguished soul-searching within Mercury, with some believing it might be the UK group's last, best chance to secure itself against BT.

Mr James Ross, C&W's chief executive, said yesterday: "The scale of this restructuring reflects our determination that all businesses within the C&W federation must be fully competitive in their respective marketplaces."

But even for a company named after the god of commerce, determination is a long way from outcome.

Labour and education key to growth

PERSONAL VIEW

When the leaders of the Latin American and Caribbean nations meet President Bill Clinton at the Summit of the Americas in Miami this Friday, they will press for closer trade ties.

They will rightly argue that the future of their market-oriented reforms will depend on the region's ability to continue generating rapid exports growth. This, in turn, requires an assurance that protectionism in industrial countries – and especially in the US – will be kept in check.

After implementing one of the most dramatic unilateral trade liberalisation reforms of modern times, the Latin American countries want to be rewarded by obtaining better access to large international markets.

Achieving a sustainable rapid rate of exports growth, however, will take more than trade agreements. It will also require the governments of the region to implement a series of "second-generation" reforms aimed at continuously increasing productivity gains. In particular, these new reforms will have to deal with two fundamental problems: outdated labour market legislation and dismal education systems.

Labour market legislation is thoroughly antiquated in most Latin American countries (as with so many areas, the pioneer reformer, Chile, is the clear exception), imposing astonishing restrictions to labour mobility. Taxes on employment are high, reaching almost 50 per cent of wages in some countries. Severance payments schemes reduce flexibility, discourage on-the-job training, and discriminate against younger workers.

There is now abundant evidence from the rapidly growing economies of east Asia that success in international markets requires flexible labour markets. This allows companies to readjust their use of labour to maximise their competitiveness.

But perhaps the most serious aspect of labour relations in Latin America is that public sector unions still exercise a tremendous political influence in many countries – especially in the health and education sectors. They use this influence to obstruct any attempt to introduce accountability, reform their operations and improve the delivery of public services. For example, the Chilean education minister was recently ousted because his plan to improve the dilapidated quality of secondary education was strongly opposed by the vociferous teachers' union.

A World Bank study found the average quality of primary education in Latin America is dismal

Reforming labour legislation – and "reinventing" the trade union movement as truly democratic, inclusive and non-confrontational – is one of the most difficult challenges that the countries of Latin America will face in the future.

Education reform is another fundamental priority. The limited coverage of Latin American education systems, their lack of emphasis on science and technology, and their generally low quality, stand in the way of improved productivity.

A recent World Bank study found that the average quality of primary education in Latin America is dismal. It quoted an international comparative study on reading abilities of nine-year-olds which found that Venezuelan students ranked last out of a sample of 27 countries.

Another study among 13-year-olds, carried out in 1992, looked at the quality of science and mathematics education, and found that Brazilian students from São Paulo and Fortaleza were outperformed by students from South Korea, Taiwan, Israel, Jordan, China, and by every developed country in the sample. Only Mozambican students recorded lower test scores than the Brazilian students.

Finally, a 1992 study on mathematics and science education for 13-year-olds in five Latin American countries – Argentina, Colombia, Costa Rica, the Dominican Republic and Venezuela – found that, with the exception of elite schools, test performance was in most cases significantly below that of Asian countries such as Thailand.

Improving the quality of education will require strengthening management, reallocating education resources, an increase in funding and making teachers accountable – especially to parents. In many cases, it will also mean decentralising education, giving a greater role to the private sector. Teachers should be trained using modern techniques, their skills periodically renewed and their salaries set according to performance.

Only if Latin American countries improve the flexibility of their labour markets and performance of their education systems will they systematically be able to expand productivity, accelerate growth and move towards prosperity.

Sebastian Edwards

The author is chief economist for the World Bank's Latin America and Caribbean Region. He is on leave from the University of California at Los Angeles where he is a professor of international business

OBSERVER

Bets on Bentsen

■ While the election of a hostile Republican Congress last month had seemed to confer job security on virtually the entire Clinton cabinet, the rumour that treasury secretary Lloyd Bentsen is poised to pack his bags is the one that will not go away. "Y'all keep asking me that question and one of these days you're gonna be right," he barked back at hacks even before the mid-term elections.

Yesterday he brushed off renewed speculation as "premature", but all the same Bentsen seemed to be hinting he was off shortly. "I believe you rest up before you wear out," he quipped.

While the courtly, cunning 73-year-old Texan may at first have seemed the odd man out in a youthful administration, he has now grown close to President Clinton, who, for instance, bowed to his advice to fight a lonely battle for the North American Free Trade Agreement.

Having served seven years in the House of Representatives and 22 years in the Senate, he would have been a useful link between an administration lacking in "greyheads" and a Republican Congress, where he has many friends.

The septuagenarian is supposedly looking forward to getting back into business – though quite what, he hasn't said.

His father built a fortune on land sales to Mexicans while Bentsen junior made his money from 16 years in the rather staider world of insurance. But why should that be more "restful" than benignly neglecting the dollar?

Home truths

■ Gender-exclusive it may be, as Observer has already pointed out, but the J.O. Hambro Businessman of the Year Award has managed, unlike some such prizes, to avoid looking foolish – largely by sticking to such indubitable pillars of the business world as Sir Christopher Hogg (1993) and Sir David Scholey (1990). To date, only 1984's titleholder, Gerald Ronson, who spent time in jail in connection with the Guinness affair, constitutes a bit of a blip.

So this year's winner, Sir William Purves, chairman of HSBC Holdings, steps effortlessly into the eminent line-up – except for the little matter, to which he himself alluded yesterday, of his having only been back in the UK for 14 months after a 40-year absence.

Appropriately enough, it fell to Lord Kingsdown, governor of the Bank of England when the latter made Purves's residence in London a condition of the Midland takeover, to make the award.

How he must have enjoyed commending Purves for his "personal courage, fortitude and modesty" – Purves, the proud Scot who, whatever he now thinks about his London sojourn, famously dislikes being told to do anything by anybody.

'Sometimes I wish I'd never been bred'

Fuelling debate

■ The hearts of Tory business managers must have been in their mouths yesterday morning on sighting a strongly worded press release from Mid-Staffordshire MP Michael Fabricant condemning the government's VAT on fuel proposals.

To date, Fabricant has made his name less for any rebelliousness than for his extraordinary flaxen mane – once memorably described by a sketch writer as resembling "a Caribbean beach hut wrecked by a tornado".

Yet here he was on the eve of today's vital procedural vote announcing his opposition "on three grounds" to 17.5 per cent VAT on fuel. If that was the attitude of a stalwart, what were the hard-pressed whips supposed to do?

Breathe again. For, provided they read his second page, they discovered that Fabricant will be behind the government tonight – because, his "argument" goes, Labour's amendment is merely procedural and would not have the effect of keeping VAT on fuel at 8 per cent.

If only Tory backbenchers would devote a fraction of such ingenuity to deciding how best to run the country.

Seconds out

■ When 46-year-old boxer George Foreman last month regained the world heavyweight championship, big bucks were sure to follow. Now he's being offered an estimated \$2m dollars per advertising endorsement; in 1993 his total income from advertising contracts was only \$3m.

Advertisers are hoping Foreman – a preacher as well as prize-fighter – will remain a suitable member of the shrivelled ranks of squeaky-clean sporting figures useful for such endorsements; possession of no unsightly stains is now a sine qua non in the US endorsement market, whose fingers have been badly burned by Michael Jackson et al.

So you can now buy a Foreman-autographed glove in a display case for \$399.95, or a rather cheaper signed photo of Foreman seconds after his November 5 victory over Michael Moorer.

How long before he is endorsing slimming products?

Watch this space

■ It didn't take National Parking Corporation long to climb back into its shell. With the last-minute collapse of the buy-out by Prudential, the founders reverted to form and yesterday asked the FT's reporter to leave the agm.

Even the stock market's greatest basket cases nowadays begrudgingly admit the press. Unlike the car-parkers – who have long held the media to be nosy-parkers.

The FT is still waiting to hear how many car parks NPC operates, a question posed in June.

Wrong numbers

■ Now that UK phone company Mercury is sacking loads of staff, will it bring in redundancy counsellors for One-2-One sessions?

FINANCIAL TIMES
Tuesday December 6 1994

Brussels deal clears way for rescue aid to Ukraine

By Lionel Barber in Brussels

European Union finance ministers yesterday sent a belated signal of support for the reformist government in Ukraine with an agreement in principle to provide a loan of Ecu85m ($108m).

The loan should pave the way for an international rescue plan to fill a potential $1bn gap in Ukraine's fourth-quarter balance of payments, which threatened to reignite inflation and cut short energy imports this winter.

The Brussels deal means the loan will be disbursed only after the International Monetary Fund completes negotiations on a $1.5bn standby loan to support the reform programme.

It is also tied to closure of the Chernobyl nuclear plant, though Ukraine's promise to meet its debt arrears means that Ecu400m of EU funds should be released soon to help pay for the Kiev government's nuclear clean-up.

The US and Germany lobbied hard for a deal in Brussels, arguing that it was vital to bolster President Leonid Kuchma, a central planner turned economic reformer who had campaigned for signing the nuclear non-proliferation treaty

France and the UK – which *had previously held up an accord* – fell into line after their partners agreed to impose tighter conditions on future EU macro-economic aid to third countries, with Ukraine being treated as an exceptional case.

Mr Kenneth Clarke, the UK chancellor of the exchequer, told colleagues that the EU should not turn itself into a "shadow IMF". He called for clearer rules on EU lending to distressed countries, and a study is expected to be produced next year.

Mr Theo Waigel, the German finance minister who chaired yesterday's meeting, overcame French reservations by forging a political compromise on aid to Algeria. Ministers agreed with the Commission to provide a maximum Ecu200m, to be released in two tranches, to support structural reform in the beleaguered north African state.

Mr Waigel said the agreement was an important statement of European support for the *Algerian government, which had* embarked on a "courageous and ambitious" reform programme.

The decision on Ukraine must still go through the European Parliament, and it leaves open the question of how much the EU will be ready to contribute next year to cope with expected balance of payments difficulties. But in the short term, it unlocks further funds from the US and other Group of Seven industrialised nations, including Japan. The US *has already offered around* $100m, and Canada, $25m.

Ministers also agreed to provide macro-economic aid of up to Ecu130m for Slovakia, to be released in two tranches to help with the reform programme.

UK set to oppose German plan for EU labour law

By Robert Taylor in London

Mr Michael Portillo, UK employment secretary, will today oppose an attempt by the German government to pass a resolution strengthening minimum labour standards for the European Union.

His stance seems certain to isolate him from his ministerial colleagues at the social affairs council meeting in Brussels. Mr Portillo fears the German proposal may usher in a new wave of social regulations damaging to European business, *and bring the* UK government into further conflict with other member states.

The UK government has resisted European Commission attempts to strengthen workers' rights because it believes they add to labour costs *and undermine business competitiveness.*

While the German motion would not enjoy any legal force, its approval by the ministers would increase the pressure on Mr Padraig Flynn, EU social affairs commissioner, to produce new social directives mainly to *improve worker rights.*

Until recently, Mr Flynn appeared to have ruled out any further legislation, emphasising the need to concentrate on tackling unemployment and enforcing existing social directives in member states.

But a number of EU countries, *including Germany*, as well as the European parliament and several European trade unions are pressing the Commission to extend the EU's existing binding and enforceable minimum labour standards. Mr Flynn appears to have changed his position and has now promised to draw *up a new agenda of social legislation.*

Today's 10-point German resolution would cover:

● Equality of treatment for part-time workers and those on fixed-term contracts;
● Prohibition of discrimination of workers who exercise their rights to complain or take legal action or refuse to perform unlawful tasks;
● The right of a worker to be heard in internal company matters;
● Protection of the privacy of workers, in particular over the collection, processing and transmission of data;
● Adequate protection for workers against dismissal;
● No sex discrimination against workers;
● The right to "an appropriate continued" payment of wages on holiday and during illness;
● Administrative co-operation in cross-border temporary employment;
● The integration of disabled people into working life;
● *The establishment of impartial* and free counselling and job placement services.

South Korea plans to relax limits on foreign exchange

By John Burton in Seoul

The South Korean government is to ease foreign exchange controls by the end of the decade. But the measures are more likely to benefit Korean companies seeking funds abroad than foreign investors wanting access to Korea's financial markets.

Seoul imposed tough controls on capital flows after a debt crisis in the 1970s and has maintained them since, in an effort to control the money supply and reduce inflationary pressures.

Under measures announced yesterday, South Korean companies will be able to raise *long-term foreign commercial* loans from next year to finance the buying of factories, advanced manufacturing equipment and technology from abroad. Foreign loans usually carry lower interest rates than domestic loans.

Other remaining restrictions on corporate loans abroad will be removed by 1997.

South Korean companies will also be granted more freedom to raise funds on foreign capital markets through bond or securities issues by 1997. Foreign bond issues are now subject to a monetary ceiling which totalled $1.25bn this year.

The foreign funds inflow is expected to increase from $6bn in 1995 to $20bn by 1999, resulting in an appreciation of the South Korean currency, according to the finance ministry.

Foreign investors in South Korea are expected to be disappointed. *Although the foreign* shareholding ceiling in listed companies will be raised from 12 per cent to 15 per cent next year, the government has not yet decided whether to abolish the quota by 1999.

The opening of the bond market *to foreign investors is expected* to start in 1996-97. However, it will be limited to issues that Korean investors consider unattractive, such as non-guaranteed bonds issued by small and medium-sized companies.

Limited investments in non-guaranteed bonds by large corporations will be allowed in 1998 or 1999, but the government has not given a commitment to the full opening of the bond market.

The Organisation for Economic Co-operation and Development, during talks on South Korea's entry into the group in 1996, is likely to demand further liberal*isation for foreign investors.*

Foreign companies will be allowed to issue stocks in South Korea next year and won-denominated bonds by 1997, although the latter may not appeal due to high domestic bond rates.

Chile and Nafta

Continued from Page 1

presidential election campaign. They admit that since the stance of the new members of Congress is uncertain, Mr Clinton's ability to push through the necessary legislation cannot be taken for granted.

However, officials see a chance for passage of a fast-track authority, limited to Chile. This would avoid a line-by-line scrutiny by Congress of the accession agreement, which would make passage of the legislation all but impossible.

Chile is a small economy compared with the other three – it is a the sixth the size of Mexico's, itself a 20th of the US – and most of its exports already enter the US at zero or low tariffs.

An agreement would help give further comfort to investors in Chile and reduce the vulnerability of its exporters to trade disputes with the US. More important, it is viewed as providing momentum for the Nafta process.

"It's like a bicycle; if we stop pedalling, everyone will fall off," said one official.

Euro-currency

Continued from Page 1

are that government budget deficits fall to 3 per cent or less of gross domestic product; that government debt falls consistently towards a target of 60 per cent of GDP.

Although 1997 remains a highly ambitious target, many observers in Brussels and the financial markets are reassessing the possibility of a move by a few selected currencies led by the D-Mark to monetary union in 1999. However, public opinion in the main European economies of France, Germany and the UK remains divided.

The European Commission pressed for a statement on the wide bands to keep hopes alive that the 1997 date for Emu could be met, arguing that it was important not to weaken the provisions of the Maastricht treaty.

Technically, however, governments could move *to a single currency and then declare, retroactively,* the wide exchange rate bands to be normal, one EU official said.

THE LEX COLUMN

Mercury's return to roots

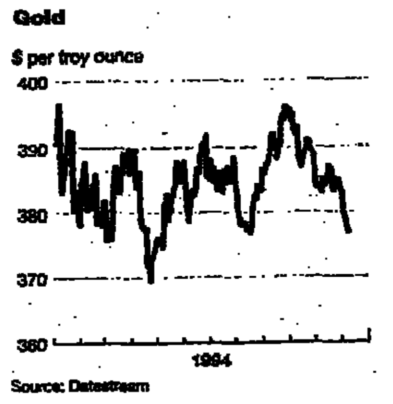
Mercury Communications delivered a classic strategic U-turn yesterday. In pulling out of payphones, directory inquiries and two other peripheral businesses, the company returns to its roots, providing business customers with long distance and international telephone services. This refocusing goes hand in hand with welcome cost cuts, but it does not provide much comfort for investors in Cable & Wireless, Mercury's parent.

Times have changed since the days when Mercury and BT carved up the UK telecommunications market between them. Since the duopoly came to an end in 1991, competition has intensified across the board, but especially so in the business customer segment. Mercury's traditional policy of competing on price rather on the range and quality of service has left it vulnerable to attack from powerful new entrants such as Worldcom and Energis, not to mention a revitalised BT. Over the past year, BT has successfully implemented price cuts designed to hurt Mercury, demonstrating how well BT has adapted to the new environment.

The cost-cutting announced yesterday gives Mercury a chance to restore *its competitiveness.* The reduced cost base will help Mercury's profits momentum in the short term. But the medium-term future remains uncertain and for those investors who do not share the euphoria about the development of Hongkong Telecom, C & W's highly profitable Hong Kong subsidiary, the uncertainty over Mer*cury's strategy provides further good* reason for selling the stock.

The shares are down by 19 per cent against the market over the past 12 months, but the prospective yield is still a modest 3.3 per cent. This could rise sharply if investors sense that C & W's growth stock rating is no longer deserved.

FT-SE Index: 3033.5 (+16.2)



Source: Datastream

Kidder Peabody

PaineWebber's decision yesterday to jettison the Japanese operations of Kidder Peabody, its recently acquired subsidiary, was doubly significant. Not least, it demonstrated PaineWebber's determination to dispel doubts *about the wisdom of its purchase.* Since October, when the group bought its majority shareholding, PaineWebber has moved fast to address Kidder's problems. The bulk of the esoteric mortgage-backed bond portfolio has been dismantled. The termination of the Tokyo equity operations is only the latest in a series of far-reaching *cost-cutting measures.*

Also significant was PaineWebber's conclusion that Kidder's Tokyo operations were dispensable even though they were profitable. That underlines the problems facing all Tokyo-based broking houses. The volatility and volumes on the equity market have been so bad that most domestic brokers are incapable of making money. Non-Japanese houses, less constrained by ministry of finance regulations, are doing better. But the huge costs of doing business in Japan mean they are not particularly profitable: over the past 24 months two other non-Japanese groups preceded PaineWebber in selling their Tokyo Stock *Exchange memberships because* the benefits failed to match the costs.

PaineWebber may find the queue for its Tokyo membership is short. It may confer lower dealing costs, but trading volumes need to be high to compensate for the additional infrastructure and capital required. The last time a membership came up, the ministry of finance had to twist arms before a buyer materialised. Since then conditions have deteriorated further.

Scottish & Newcastle

Over the past two years, shares in Scottish & Newcastle have risen 22 per cent against the brewery sector. The *reasons are clear: it has made a series* of well-timed and well-executed strategic moves. It pulled out of hotels at the right moment and diversified effectively into the continental European leisure industry. It also had the nerve to buy the Chef & Brewer pub chain at a price which competitors deemed high, but which now looks reasonable. The figures yesterday were short on detail but the message was clear – the integration of Chef & Brewer is proceeding better than planned. Annual cost savings *should amount* to an ample £14m by the end of the year.

That said, without the first time contribution from Chef & Brewer, the group would have struggled to produce much growth in either earnings or operating profits. Even if problems in malting accounted for half the decline in beer profits, the underlying business was subject to a familiar squeeze in margins. The industry backdrop remains challenging. Competition in the beer market is intense, volumes are falling as the drift to wines and spirits continues. The absence of a "feel-good" factor means that there is little likelihood of a swift pick-up in retail profits as the economy recovers. The shares now enjoy a market rating and the outperformance is unlikely to continue.

Gold

The macro-economic fundamentals for gold look dreadful. The costs of holding non-yielding assets such as bullion have risen as interest rates have started to move up. Alternative investments such as bonds appear increasingly attractive. Meanwhile, the potential rewards of holding gold remain few and far between. Precious metals have traditionally been viewed as a hedge against inflation. That rationale may no longer be valid: the general breakdown of international exchange controls allows investors to switch out of depreciating currencies; and the development of sophisticated derivative instruments means there are more effective ways of offsetting inflationary dangers.

Fundamentals apart, the current absence of any significant inflation in Europe, Japan or the US provides little incentive to hold the precious metal. Nor does the supply-demand balance give cause for comfort. With the gold price falling to a 16 week low yesterday, Asian and Middle Eastern investors – who generate 55 per cent of demand – have few reasons to buy bullion. Many have already been burned by the depreciation of their dollar-backed assets against their local currencies. On the supply side, any decent price increase tempts mine-owners to raise production or central banks to release gold reserves. For the gold price, the worst of all possible worlds seems to have materialised.

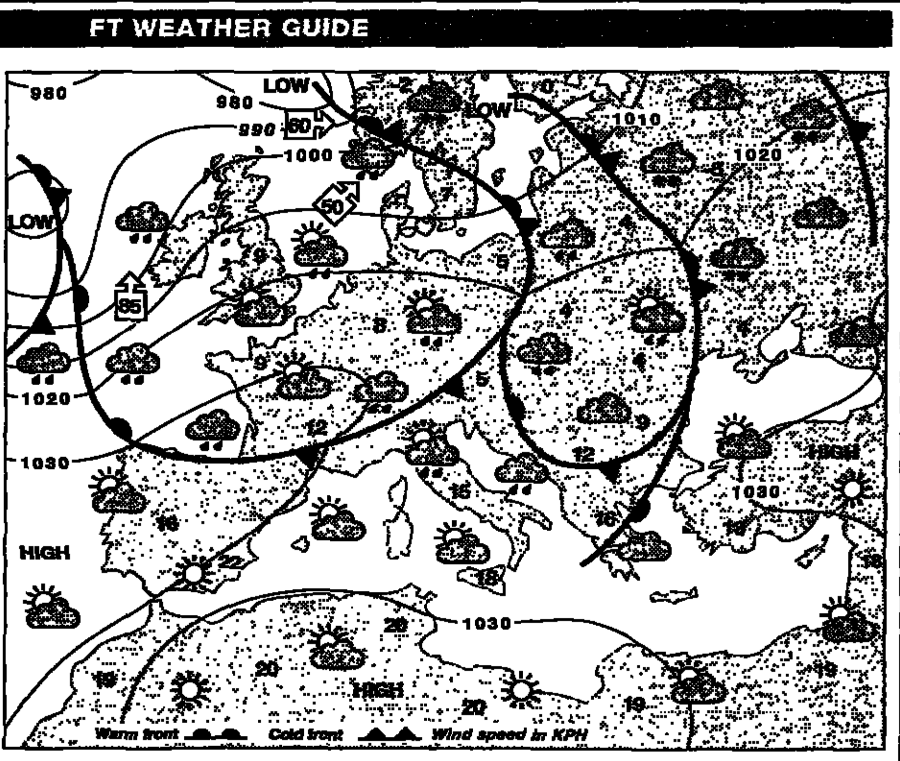
FT WEATHER GUIDE

Europe today

A vigorous storm will move from the Atlantic towards the UK. During the afternoon, Ireland will have southerly winds increasing to strong gale force. Rain clouds will rapidly move in from the west. Another low pressure system will cause near gale to gale force winds in southern Norway. An associated cold front will produce snow mixed with rain over southern Scandinavia. Rain will extend from the Pyrenees across the Alps into Poland as a cold front sweeps east. Behind the front, northern Germany will have sunny spells and some showers. Southern Europe will stay fair.

Five-day forecast

Active low pressure systems will cross western and northern Europe causing unsettled conditions and gusty winds. This strong westerly flow will draw mild air inland and cause unseasonably high temperatures in most of western Europe. Wintry conditions will persist over northern Scandinavia, but southern regions will have snow mixed with rain. Southern Europe will be sunny with isolated showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	fair	25
Accra	shower	33
Algiers	sun	20
Amsterdam	fair	10
Athens	fair	16
Atlanta	fair	18
B. Aires	sun	25
B.ham	fair	9
Bangkok	fair	34
Barcelona	sun	16
Beijing	sun	10
Belfast	rain	7
Belgrade	cloudy	10
Berlin	shower	7
Bermuda	fair	23
Bogota	fair	20
Bombay	sun	32
Brussels	fair	9
Budapest	fog	6
C.hagen	shower	7
Cairo	fair	19
Cape Town	sun	21
Caracas	fair	30
Cardiff	drzzl	10
Casablanca	sun	19
Chicago	cloudy	1
Cologne	fair	8
Dakar	sun	29
Dallas	shower	24
Delhi	fair	28
Dubai	fair	25
Dublin	cloudy	9
Dubrovnik	fair	15
Edinburgh	fair	7
Faro	sun	19
Frankfurt	shower	8
Geneva	rain	9
Gibraltar	fair	19
Glasgow	rain	8
Hamburg	shower	8
Helsinki	snow	1
Hong Kong	cloudy	25
Honolulu	cloudy	28
Istanbul	cloudy	11
Jakarta	shower	31
Jersey	cloudy	13
Karachi	sun	31
Kuwait	fair	18
L. Angeles	sun	18
Las Palmas	sun	22
Lima	cloudy	24
Lisbon	fair	16
London	fair	10
Lux.bourg	fair	6
Lyon	cloudy	9
Madeira	fair	21
Madrid	fair	12
Majorca	fair	18
Malta	fair	19
Manchester	drzzl	9
Manila	cloudy	30
Melbourne	fair	36
Mexico City	fair	22
Miami	thund	29
Milan	fog	9
Montreal	cloudy	3
Moscow	snow	-5
Munich	rain	6
Nairobi	fair	25
Naples	sun	16
Nassau	thund	29
New York	cloudy	12
Nice	fair	15
Nicosia	fair	13
Oslo	sleet	1
Paris	fair	8
Perth	fair	24
Prague	drzzl	4
Rangoon	fair	32
Reykjavik	snow	0
Rio	fair	30
Rome	fair	16
S. Frsco	cloudy	12
Seoul	cloudy	9
Singapore	shower	30
Stockholm	sleet	3
Strasbourg	shower	9
Sydney	fair	26
Tangier	fair	19
Tel Aviv	fair	18
Tokyo	fair	14
Toronto	cloudy	1
Vancouver	shower	3
Venice	fair	10
Vienna	cloudy	4
Warsaw	cloudy	5
Washington	cloudy	14
Wellington	fair	20
Winnipeg	sun	-12
Zurich	rain	.7

مكرر من الاصل

FINANCIAL TIMES SURVEY

Trade conflict with the US: A particularly heated argument: Page VII

JAPANESE INDUSTRY

Finance and industry: Different sides of the same story: Page VIII

Tuesday December 6 1994

A mood of muted optimism prevails

Japanese industry is cautiously celebrating a gentle economic recovery, which has brought the first profits upturn for five years, writes William Dawkins

Now is the time of year when Japan's top industrial companies hold their annual *bonenkai* parties, at which executives gather to chat about business over beer and a tray of sushi.

The tone of these august gatherings is a little lighter *this year than last, when* industry was wallowing in the trough of its deepest recession since the second world war. *Now Japanese industry is cau*tiously celebrating a gentle economic recovery, which has brought the first profits upturn *for five years.*

Those in the fastest recovering sectors such as semiconductors are throwing parties with a flamboyance not seen since the heady late 1980s. But overall, the mood of this *bonenkai* season is one of only muted optimism.

Until the recession hit, in 1990, Japanese industry was imbued with "great arrogance," believes Mr Hideo Ishihara, chairman of Goldman Sachs (Japan). Today, "that arrogance has crumbled," he told a recent seminar in Tokyo. The chutzpah of the 1980s is being replaced by a period of "soul-searching... a loss of confidence" among Japanese managers, says Mr Ishihara.

The managers are starting to get to grips with a number of fundamental changes. Abroad, uncomfortable reminders of fallibility have cropped up over the past year, such as the way in which Germany's BMW seized Rover, the British car maker, from under the nose of Honda, its long-time partner; and the problems Sony and Matsushita have experienced with their investments in the US film business.

At home, companies face adjustment to the shift over the next decade or so from a fast-expanding, export-driven economy – on which all their strategies up till now have been based – to a slow-growing, consumer-driven economy.

Services will take on increasing importance, thanks to the *fact that Japan has the world's* fastest-ageing population profile. An increasing amount of basic manufacturing will be *undertaken in cheaper loca*tions offshore because of the yen's strength and the growing competitiveness of Japan's *Asian neighbours.*

Many companies believe this so-called "hollowing out" is a mark of declining competitiveness. Yet it *is* an inevitable, maybe even healthy trend. It reflects a new division of labour in Asia between high technology industries and basic industrial manufacturing, argue seasoned observers such as Mr Yasushi Mieno, outgoing governor of the Bank of Japan.

Already, Japanese companies are becoming accustomed to the main consequence of all these changes; that they will not in the 1990s repeat the growth rates of the 1980s. The recovery which has just started is a sign of things to come – weaker and shallower than previous upturns. At best, industry can expect 3 per cent annual rates of increase in gross domestic product this decade, well below the 5 per cent growth rates of the late 1980s, agree economists in Tokyo.

Industry faces, in consequence, a harder task to increase profitability than it did before the recession hit. The top 600 quoted companies *managed a mere 4.36 per cent* rise in current profits – before tax and extraordinary items – in the first six months of this year, estimates the Wako Research Institute of Economics. *For the full year to next* March, they are expecting a 7 per cent profits rise, which looks on the surface like a *good turnround from the 16.4* per cent profits decline in the previous year, according to the Tokyo Stock Exchange.

*Yet even at that level, oper*ating profits margins are in poor shape; well below the average for the previous two *decades and even below levels* seen after the 1973 oil price shock. And the scope for manufacturers to improve margins by raising prices is limited by continuing surplus capacity in fundamental sectors such as steel, cars and consumer electronics.

Some, like the big integrated electronics companies and precision instrument makers, have nevertheless managed to make startling increases in profits in the first half of this year, thanks to their skill in squeezing costs – an indication that they are responding to the structural changes ahead.

One consequence of this painfully slow recovery is to continue to lay bare the weaknesses in Japan's industrial structure exposed by the recession. This might prove to be a blessing, if it ensures that industry remains under pressure to restructure.

Japanese industry has, for good reasons to do with avoiding high unemployment, been slow to address its problems. With a few exceptions, Japan's top companies have so far managed to struggle through the recession without reducing their three main excesses, capacity, stocks and workers, on anything like the scale of their US or European competitors. Investment in new plant and equipment is set to fall by nearly 6 per cent this year, estimates Nomura Research Institute; making a record four years of decline. Yet even after this, average capacity utilisation is barely abovethelevels 20 years ago in the immediate aftermath of the Opec oil price rises.

The rate of growth in wage costs has meanwhile been trimmed. This is partly due to reductions in overtime and bonuses, which account for a third of average remuneration, so giving Japanese industry more scope than most of its competitors to cut labour costs without firing people. Unit labour costs are forecast to rise, as a result, by just 2.1 per cent this year.

Jobs have been cut as well, mainly through early retirement and cuts or freezes on graduate recruitment. Graduates who fail to get jobs do not show up in unemployment figures, but reductions in older members of the workforce have been enough to nudge Japan's jobless rate from 2.5 per cent to 3 per cent over the past year. That is still a long way below US and European levels, a mark of the success with which Japan's chronically overmanned service industries mop up surplus jobs.

It is also a sign of how Japan's much-envied tradition of lifetime employment, a luxury confined to the top 300 or 400 companies, has survived the recession. A growing number of companies would like to scrap the system.

Some, such as Sony and Toyota, have started to experiment by setting up new streams of staff on short-term contracts. But most companies accept that the present generation of life-timers will have to retire before the system itself can retire – and by then, ageing Japan is likely to be facing a labour shortage.

The sharpest cost reductions have come from the shift of capacity overseas. Offshore production has roughly doubled to 6.4 per cent of Japanese industry's total output over the past decade, but is still tiny by comparison with the 27.5 per cent of production which US companies now have overseas. There will be more to come.

Another traditional feature of Japanese industry to be put up for reassessment is the network of ties, through cross-shareholdings and exchanges of managers, between manufacturers, bankers, suppliers and customers.

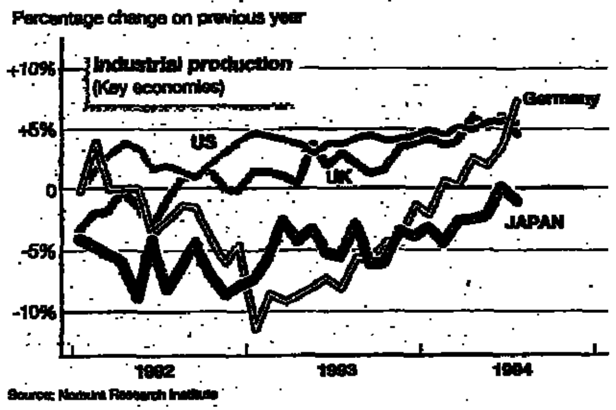
The pressure to reduce costs has forced industrial companies to terminate old alliances that have outlived their usefulness. This is especially true in the *keiretsu* diversified corporate families such as Mitsubishi, Mitsui, or Sumitomo, which dominate heavy manufacturing, trading and banking. It is also taking place among groups such as Matsushita or Toyota, which exist outside the traditional *keiretsu* groups but nevertheless have similar links with subcontractors and distributors.

Sales of mutual cross-shareholdings rose sharply last year, to a record Y2,148bn, and continue to rise this year. Capital locked up in equity stakes in partners which have become less useful over the years is being freed for better use, and loyal but over-expensive contractors are being asked to take their business elsewhere.

Gradually, Japan's industrial structure is readjusting itself to cope with a rise in international competition, and to make the best of a maturing economy. Arrogance may have crumbled, yet Japanese industry's ability to adapt should not be underestimated.

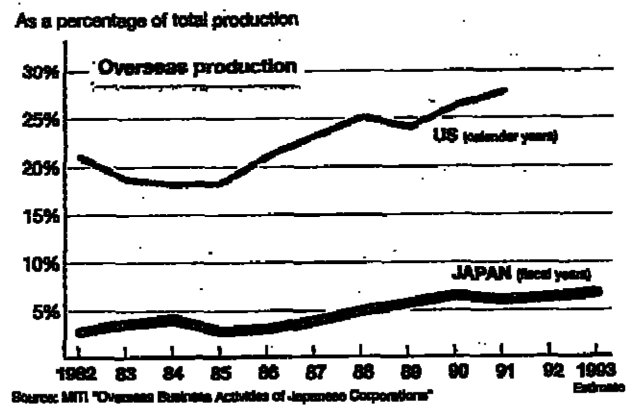
Can Japan compete?

Percentage change on previous year



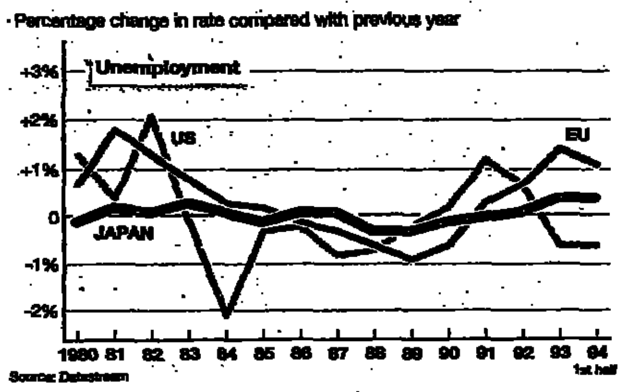
Source: Nomura Research Institute

As a percentage of total production



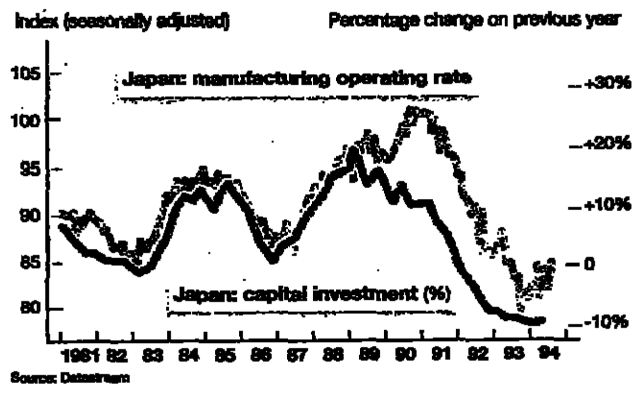
Source: MITI "Overseas Business Activities of Japanese Corporations"

Percentage change in rate compared with previous year



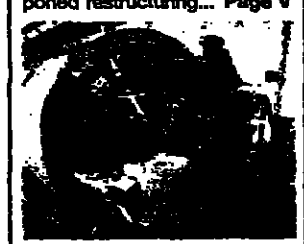
Source: Datastream

Index (seasonally adjusted) Percentage change on previous year



Source: Datastream

IN THIS SURVEY



□ Production Editor: Philip Sanders

Michiyo Nakamoto looks at developments in the electronics industry

Strong export markets have been crucial

After three years of battling against the debilitating effects of a sharply rising yen and anaemic economic activity at home, Japan's electronics companies are finally beginning to see a turn in their fortunes.

In their latest results, many Japanese electronics companies, from consumer electronics makers to computer and semiconductor manufacturers, have been able to report a lift in first-term profits this year and have indicated expectations of a better year-end than they have seen for the past few years.

Toshiba, the integrated electronics company, for example, saw operating income quadruple in the first half while Sharp, the consumer electronics company, managed to double its operating profits in the six months to September, 1994.

There is no doubt that strong export markets, particularly in the US and other parts of Asia, have been crucial in helping electronics companies to reverse the tide of falling profits.

The results season did provide evidence, too, that many Japanese electronics companies still command a leading edge in key technologies which has enabled them to take advantage of buoyant demand overseas and thereby improve their profits and future outlook.

The Japanese dominance of the memory chip market, for example, contributed significantly to the better results electronics companies have reported so far this year.

The growing sophistication of electronics equipment, from more powerful PCs and games machines to increasingly intelligent camcorders and communications tools, has boosted demand for memories and provided a bonanza for the leading Japanese manufacturers of dynamic random access memory chips.

Likewise, the Japanese lead in liquid crystal display panels – in wide demand for lightweight, portable electronic tools – has contributed significantly to the recovery of many companies.

Toshiba, for example, says that first-half sales were up 16 per cent in its information and devices division, which makes up 60 per cent of overall sales, while total exports were up 18 per cent, largely on the strength of semiconductor and LCD demand.

Meanwhile, Japanese companies have been implementing crucial restructuring efforts, including the shifting of manufacturing overseas and increased procurement of components from abroad, to lower their cost base.

Companies have been moving labour-intensive manufacturing to countries with lower labour costs, most notably China, and buying a larger number of components made in south-east Asia where prices are often 20 to 30 per cent below those at home.

With the yen showing no signs of returning much of its recent 24 per cent gain against the US dollar, and as the domestic market promises no more than a mild recovery, such cost-cutting has been a vital element of Japanese companies' programmes to regain international competitiveness.

The result has generally been a significant improvement in operating profits even while sales have hardly firmed or have even fallen. Matsushita, the world's largest consumer electronics group, reduced costs by Y28bn in the first half, and improved pre-tax profits by 26 per cent although sales were only moderately higher.

Restructuring efforts have been essential not only in raising profits at Japanese electronics companies but also in maintaining their position against growing competition both in overseas markets and in their home market.

The appreciation of the yen has meant that Japanese electronics makers are at a disadvantage against foreign competitors, not only in world markets, but in the domestic market as well.

Consumer electronics makers, for example, have faced stiff competition at home from cheaper Asian imports. NEC, Japan's leading PC-maker has been forced to follow the lead of foreign computer makers in Japan by reducing prices substantially.

So far, the strengths Japanese companies had built up in many sectors of the electronics industry, coupled with restructuring efforts over the past few years, have enabled most companies to stand up to the growing pressures they face.

Some of them are even likely to emerge from the domestic recession and the high yen environment better equipped to compete on the international stage.

However, the improvement in their business results masks the reality Japanese electronics companies face of increasing international competition in markets they have long dominated such as consumer electronics and memory chips, or where they have been able to enjoy a protected home market, such as in the domestic PC market.

In semiconductors, for example, while the recent boom in memory chip demand has been a strong factor behind the profits rise at Japanese electronics companies, they are expected to face increasing competition from Korean manufacturers which have raised their competitiveness vis-a-vis Japanese manufacturers in recent years.

Mr Yutaka Sugiyama, industry analyst at UBS Securities, notes that "a sharp increase in Korean production is threatening the Japanese semiconductor industry." Mr Sugiyama believes that as a result Japanese makers could see profitability decline as early as next year.

Even in the PC market, while foreign competition has yet to break the domestic makers' grip on Japanese PC users in a significant way, cracks are beginning to appear, with one Japanese PC maker after another launching machines that are IBM-compatible, rather than based on their own proprietary systems.

In wireless communications, which is one of the most promising growth markets, world-leading foreign companies such as Motorola and Nokia, are providing strong competition in the domestic market to Japanese equipment makers, which hardly have significant operations outside the home market.

The likelihood is that, barring an unexpected plunge in the yen's value, and as Japan gradually opens its doors to more foreign products, Japanese electronics companies will continue to face strong foreign competition in many of their traditionally important markets.

Their best hope then lies in their ability to continue identifying and developing technologies which will form the basis for new markets in the years ahead. So far, the signs are that many Japanese companies are well on the way to doing so.

Sharp's belief in the continuing importance of information communication tools has led it to invest in the world's largest LCD plant and to focus R&D efforts on opto-electronics, which enables the processing of information in huge volumes.

Other Japanese companies such as Sony, see the information age spurring demand for advanced recording media. They have led in the development of discs which can record substantially larger amounts of information than currently possible.

Their efforts are promising signs that as new markets based on new technologies unfold, Japanese electronics companies will continue to play a significant role in their development.

As they do so, it is probably inevitable that many of the key product sectors they once dominated will be passed on to others.

MULTIMEDIA

Laying the groundwork

Ever since US vice-president Al Gore began his highly public campaign for a national information superhighway, the Japanese authorities, private business and media have been obsessed by the idea that the country may be left behind in the race to connect the population with an advanced communications network.

The Ministry of Posts and Telecommunications (MPT) has come out with a master plan for Japan's information age that reflects the authorities' concern with catching up with the US in laying the groundwork for multimedia services.

In its plan, the MPT calls for the building of Japan's information superhighway infrastructure by the year 2010, five years earlier than planned by NTT, the former public utility which is probably the only telecommunications company today with the ability to build a nationwide network.

Meanwhile, the Ministry of International Trade and Industry, which has competed with the MPT for the leadership role in nurturing Japan's multimedia industry, has also published a report calling for increased government efforts to pave the way for an advanced information society.

In its report, Miti notes that Japan has been a laggard in the development and use of information networks. The spread of local area networks and multi-channel broadcasting, two important steps along the information highway, is much further advanced in the US than in Japan, Miti points out. Yet beneath the ostensible panic, views are divided over whether Japan really needs to catch up with the US in laying the groundwork for advanced communications services.

There is general acknowledgement that when it comes to the spread of many of the key elements in the information superhighway, the US has a considerable lead over Japan.

For example, computer networks which will link businesses, academic institutions, public facilities such as hospitals and libraries, and homes to each other to provide services ranging from health care and banking to home shopping and interactive video games, are already in much wider use in the US than in Japan.

According to IDC, a high technology consultancy, penetration of PCs in the US is 42 per cent against just 10 per cent in Japan and 56 per cent of PC users in the US are connected by local area networks compared with just 13 per cent in Japan.

Cable TV, which is expected to be another key channel for multimedia services, is also far more widely used in the US than in Japan. Jardine Fleming, the securities company, estimates in a recent study that cable TV reaches 70 per cent of US homes compared with just 2.9 per cent in Japan.

The US is also the recognised leader in developing services which take advantage of the enhanced powers of communication provided by sophisticated networks. Video-on-demand and home shopping services are about to be commercialised and several companies are experimenting with a variety of interactive services.

"Japan lags far behind the US when it comes to the utilisation of networks," admits Mr Masashi Kojima, president of NTT. At the same time, however, some Japanese business executives have taken comfort from the fact that this apparent delay in Japan's move towards the multimedia age may not really be a serious cause for concern.

"I don't agree that the US is ahead of Japan," asserts Mr Nobuyuki Idei, managing director of Sony. "They may end up being the last of the pack because they have very old cables and there is the possibility that this will be an obstacle to advanced multimedia," he points out.

Many Japanese industrialists point to the failed multimedia alliances in the US and the delays in multimedia experiments as evidence that the promise of vastly enhanced communications and media services has run far ahead of the reality. "Not very many people in the US are talking as loudly any more about multimedia as they use to a while ago," says one Japanese electronics executive.

Furthermore, Japanese companies are leaders in many of the technologies that will be central to the development of information superhighways.

For example, companies such as Sony and Toshiba are leading manufacturers of CD-ROMs, which are likely to become a key recording device for information captured through computer networks.

JVC is a leader in digital compression technology while Pioneer has expertise in interactive cable systems.

With their existing strengths and the lead they maintain in many key technologies, the optimists believe Japanese companies have plenty of time before the infrastructure is ready and the regulatory environment is sorted out to make up lost ground in preparing for the advanced information age.

"Worrying about multimedia is like worrying about which university to send your son to when he is just born," Sony's Mr Idei asserts.

"The first five years will be just a small part of the big (multimedia) picture," adds Mr Yoichi Morishita, president of Matsushita.

Meanwhile, Japanese companies will be able to focus their energies on developing those technologies which they believe have the greatest market potential in the information age.

To complement areas where they have recognised weaknesses, particularly software, they can form links with the many innovative software companies that exist in the US.

That is precisely what companies from Matsushita, the consumer electronics giant, to Toshiba and NTT, have done.

Matsushita, Sony, Toshiba and NTT are among a growing list of Japanese investors in General Magic, a US start-up company which is developing an operating system and communication software for personal digital assistants.

NTT has linked up with Microsoft, the US software giant, and Silicon Graphics as well. The availability of interesting contents is one of the keys to success in multimedia, notes NTT's Mr Kojima. "We hope to build bold alliances with the US in the field of network utilisation and contents," he says.

The alliances reflect a recognition that the building of a wide-ranging information infrastructure that is capable of changing the whole structure of society is a massive undertaking involving many industries, advanced technologies that are still to be developed, and huge sums of money.

As such, the march to multimedia is likely to be less a contest in which either the US or Japan will emerge victorious than a three-legged race in which each side needs the other to reach their common goal.

Michiyo Nakamoto

THE MOTOR INDUSTRY

Yen's rise curbs consumer appetites

For the first time in its history, Keidanren, Japan's most influential business organisation, welcomed a member of the motor industry as chairman earlier this year.

The appointment of Mr Shoichiro Toyoda, chairman of Toyota, to the head of Keidanren was widely seen at the time as a signal of recognition that Japan's vehicle industry was at last worthy of representing the Japanese business establishment.

Ironically, that recognition has come just as the Japanese vehicle industry has faced one of the most trying periods in its history.

It is not just that a four-year economic slump has brought about a 17 per cent fall in new vehicle sales in Japan from 7.8m units in 1990 to 6.5m units last year. More fundamentally, the Japanese market is not expected to provide its vehicle makers with the kind of growth they had become used to since the late 1980s.

While demand has recovered in the past several months and is likely to continue to improve, the domestic market, which grew 5 per cent in 1987 and by an average 9 per cent in the following three years, is only expected to show growth of 1 to 2 per cent for the foreseeable future, notes Mr Yutaka Kume, chairman of Nissan.

Japan's falling population growth, inadequate infrastructure and the growing cost-consciousness of consumers make it unlikely that the home market will expand significantly in future, he says.

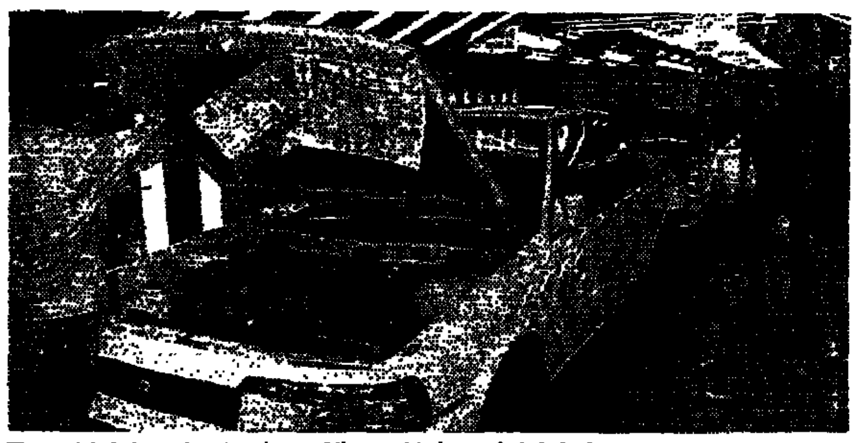
Overseas, the yen's sharp rise against leading currencies, and the improved competitiveness of US vehicle makers, has curbed consumer appetite for Japanese cars in both the US and Europe.

In the US, Japanese vehicle manufacturers have seen their share of the market slump as Japanese cars have become more expensive due to the appreciation of the yen and as US consumers have embraced the improved quality of cars made by domestic manufacturers.

At the same time, the yen's appreciation has slashed the value of their profits made overseas. Honda, which reported a rise in first-half pre-tax profits for the first time in four years, said that the yen's rise had shaved Y39bn off operating profits.

The high value of the yen has also helped the manufacturers' foreign competitors make inroads in the domestic market by cutting their prices to bring them within reach of a wider customer base. The share of imported cars in Japan's vehicle market has grown each month for the past year and rose to more than 10 per cent for the first time in August, although the figures include Japanese reverse imports.

Japanese vehicle manufacturers have responded to these multiple pressures by cutting costs across the board. Companies have increased the commonality of parts between different models and, in many cases, reduced the range of models they turn out. Mazda and Nissan, for example, two of the worst performers in recent years which both reported losses in the first half of 1994, are supplying each other with pick-ups and vans.



The vehicle industry has faced one of the most trying periods in its history *Picture: Ashley Ashwood*

Personnel costs are being cut by trimming or even freezing recruitment while sub-contractors are being squeezed on parts prices.

Such belt-tightening has started to show in the vehicle makers' financial performances. Honda more than doubled pre-tax profits in the first half, helped in part by savings of Y36.5bn through cost-cutting. But these measures are insufficient to counter fully the falling profitability of their overseas operations and the loss in their international cost-competitiveness.

Japan has become one of the most expensive manufacturing bases in the world.

Meanwhile, with the domestic market unlikely to provide substantial growth in the years ahead, Japanese vehicle makers are becoming more dependent on overseas markets for growth. The majority of Japanese vehicle manufacturers sell more cars overseas than they do at home. The ratio of overseas sales is as high as 70 per cent for Honda and 66 per cent for Mazda.

Calls by foreign governments to increase local production and local procurement of vehicle parts, is also putting pressure on Japanese vehicle makers to reduce their dependence on exports from Japan.

Against this background, Japanese companies believe they have little choice but to accelerate the shift of production outside of Japan both to counter the effects of the high yen and to be closer to overseas markets which are becoming increasingly important for their survival.

Toyota, for example, plans to raise production in North America by 50 per cent by 1996. It announced recently that it will stop exporting its mainline Corolla sedans to North America and rely on its Canadian plant to manufacture the cars instead.

Moving production outside of Japan is a difficult step for any Japanese company: it exposes them to public criticism that they are taking jobs away from domestic workers and contributing to the hollowing out of the nation's industrial base. For the vehicle manufacturers, the decision to shift production overseas is made even more difficult at this time, because most of them made substantial capital investments in the late 1980s.

The increased shift of production overseas will mean a further drop in domestic production which has already fallen 18 per cent to 11.2m units since peaking at 13.5m units in 1990. Domestic production is now almost down to the same level as it was 10 years ago, Mr Kume points out.

This year, helped by an income tax cut and a moderate recovery in the Japanese economy, vehicle sales have started to pick up. The likelihood is that demand will continue to firm next year as well. But the recovery at home is not expected to fundamentally change the need for restructuring in the domestic industry.

"The problem that the Japanese auto industry has is coming to terms with the fact that they won't be needing so much capacity here," says Mr Andrew Blair-Smith, industry analyst at Barclays de Zoete Wedd Securities.

Executives of Japan's leading vehicle companies recognise the problem but are hoping that they will be able to deal with overcapacity without massive lay-offs by spreading the pain over several years.

Meanwhile, the march into markets overseas will continue as Japanese companies seek opportunities for growth which they no longer expect to find at home.

Michiyo Nakamoto

The squeeze is on manufacturing sub-contractors, says **William Dawkins**

Sharp price cuts demanded

Cost reductions by Japan's largest manufacturing companies during the rigours of recession have come partly at the expense of their armies of sub-contractors.

Industrial heavyweights such as Toyota and Matsushita have been demanding sharp price cuts and encouraging suppliers to seek new customers as they scale back their own production and strive to reduce break-even points. They have kept up the pressure, even into the mild recovery.

Nearly two-thirds of Japan's biggest industrial customers have increased in-house production of components in an attempt to reduce costs over the past year, while a third have reduced their number of suppliers, according to the latest white paper on small businesses from the Ministry of International Trade and Industry.

Some sub-contractors have been left high and dry by the shift of industrial production overseas, to 6.6 per cent of manufacturing output last year, more than double the level in the mid-1980s, according to the Japan Research Institute.

In many cases, the pressure on small suppliers' sales and margins has been intolerable. For the first time in post-war years, the number of business collapses exceeded start-ups just after the onset of the economic downturn in 1991. Bankruptcies, of which small manufacturing sub-contractors formed the majority, continued to rise until last July, when Japan's slow economic recovery began to ease the pressure.

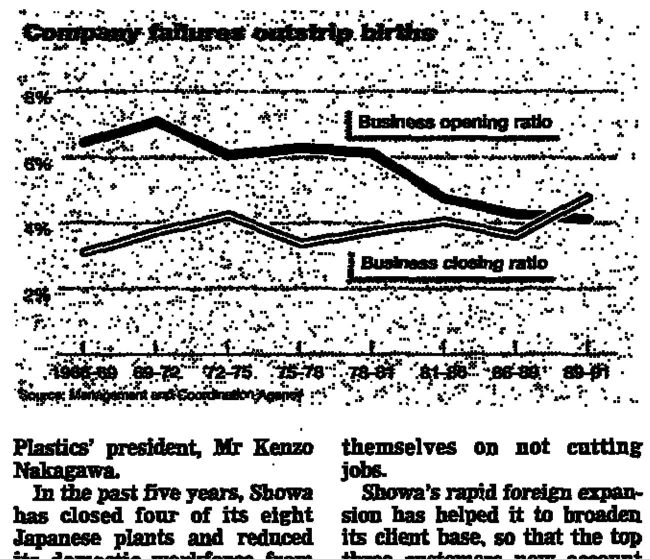
The survivors have prevailed by screwing down their own costs, as shown by the contrasting experience of three sub-contractors around Osaka, the heartland of Japan's electronics industry. They hold very different ranks in Japan's feudal-style industrial structure, but they share one thing; the realisation that near-total dependence on a single large client is not the guarantee of survival it used to be for most of Japan's post-1950s economic expansion.

The largest and most successful of them, Showa Plastics, a 2,200-employee producer of plastic casings, with a head office in central Osaka, has been entrepreneurial enough to follow its customers to cheaper locations overseas. It has closed more than half its domestic production over the past five years and relocated next to its Japanese buyers' new overseas plants in Asia, the US and Europe.

Showa is a member of the family of more than 6,000 local companies serving Osaka-based Matsushita, Japan's largest consumer electronics group. The electronics giant has shifted about 60 per cent of what used to be its local component purchasing offshore, mainly into neighbouring Asian countries, since the early 1980s.

All of Showa's main customers have followed the same pattern. "Toshiba, Hitachi and Sony are more willing to buy from me in Singapore than in Tokyo. They won't even see me in Tokyo," says Showa Plastics' president, Mr Kenzo Nakagawa.

Company failures outstrip births



Source: Management and Coordination Agency

In the past five years, Showa has closed four of its eight Japanese plants and reduced its domestic workforce from 550 to 150. This is unusually aggressive restructuring by the standards of Showa's Japanese competitors, who pride themselves on not cutting jobs.

Showa's rapid foreign expansion has helped it to broaden its client base, so that the top three customers now account for 40 per cent of sales, from 75 per cent in the mid-1980s. But the most important benefit of moving production out of Japan is to protect Showa from the yen's inexorable rise.

Showa's prices have fallen by 30 per cent over the past four years. But unit costs have also fallen, helped by the decline in foreign currencies against the yen, far enough for Showa to increase its profits throughout the downturn.

Takizawa Precision Gear, a 14-staff producer of machine tool gears, has taken a more traditional approach to the squeeze imposed by its clients by staying put and stepping up the search for internal self-improvement. "Customers are less loyal then in old times," mourns Mr Kiyoshi Takizawa, president of the Takizawa Precision Gear.

Mr Takizawa devotes 40 per cent of annual sales to his top three customers. That is a big enough exposure to make it impossible to resist their demands for price cuts of between 5 per cent and 15 per cent every year for the past four years, he says.

Sales have shrunk from Y300m to Y200m over the same period, perilously close to Takizawa's Y180m break-even point. Instead of sacking his tiny workforce, Mr Takizawa has increased spending on training, borrowed Y50m to re-equip with Swiss machine tools and carried out an engineering cost analysis.

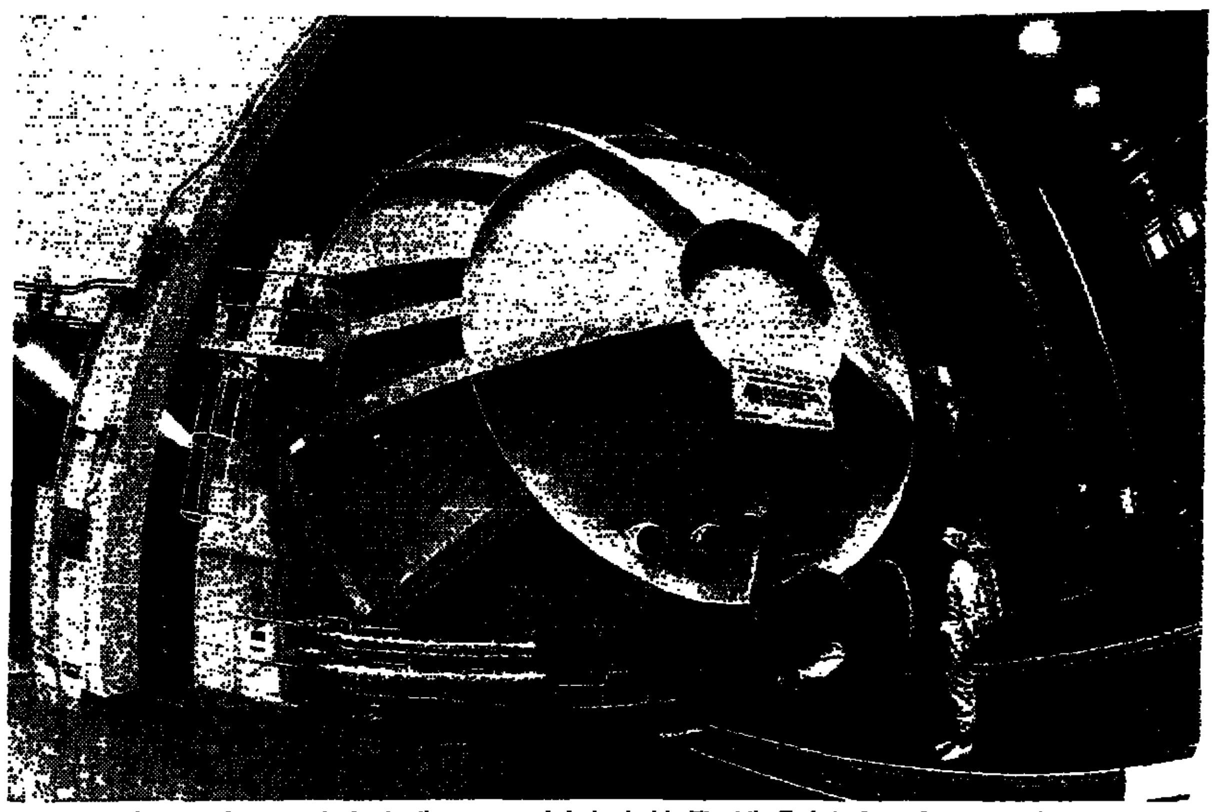
He justifies sticking to the old invest-or-die approach on the grounds that Takizawa has few foreign competitors, allowing him to market more on quality than on price. But Mr Takizawa admits that "there is nothing we can do" if the Japanese market continues to shrink.

Nearby, Meisei Metal Industries, a 140-staff maker of metal dies for the car industry, has joined forces with other sub-contractors, to seek economies of scale. Meisei's top three customers account for 85 per cent of sales and the group has had to accept price cuts as high as 30 per cent this year, as a result of which it has fallen into loss for the first time since the economic downturn began.

It formed a joint company two years ago with three other sub-contractors to service a joint customer, a car group. The sub-contracting group, called Must, after the initial letters of its company members, saves costs by pooling design, marketing and finance. This also saves costs for the customer, by reducing the number of suppliers it has to handle. Several of Meisei's competitors have adopted the same strategy and Meisei itself may launch Must-type groups for other important customers.

Mergers between car industry sub-contractors will inevitably increase, believes Mr Yozo Ueda, Meisei's vice-president. He estimates that up to 30 per cent of his competitors will go out of business "sooner or later."

If he is right, Japan's manufacturing sub-contractors will come into the economic upturn late, as their big customers continue to squeeze prices, to ensure their own recovery. It supports the widespread assumption that the general economic recovery will be painfully slow.



Japan will continue to look to space to develop the aerospace industry: test facility at the Tsukuba Space Centre, Ibaraki Picture: Ashley Ashwood

The aerospace industry faces formidable odds, writes **Gerard Baker**

Too weak to stand alone

Almost unique among Japan's industries, aerospace has never been an international contender. In a land of industrial leviathans, aerospace has been a pygmy – the entire industry is just 8 per cent of the size of the US aerospace industry and a third that of the UK.

Now, as the world's aircraft market creaks under the strains of over-capacity, Japanese government and industry are making one more attempt to get into the race with their European and American rivals.

In the summer, the Ministry of International Trade and Industry confirmed that it had approved plans for the development of a new small civilian airliner. The project, code-named YSX, will start in 1996 and is planned to be in service by 2000.

Japan's aerospace industry has long been dependent on the nation's relatively small defence forces for its staple business. Last year, more than three-quarters of the aircraft manufacturers' Y850bn sales were defence-related.

The small civilian sector consists principally of component manufacture for US Boeing aircraft. But the end of the cold war threatens to cut military demand and the industry is pinning its hopes on the new civilian airliner project. If it succeeds it could open the way for the development of an independent Japanese aerospace industry, but the odds are stacked against it.

Japan is anxious to avoid repeating its previous experiences with civilian aircraft. In 1962, the Japan Aircraft Development Corporation, a consortium of the leading aircraft manufacturers, launched the YS-11, a 60-seat twin-engined turboprop. After selling just 182 aircraft, the project collapsed in 1972 in the face of a mountain of debts and recriminations.

A similar fate befell a short-take-off-and-landing craft called Asuka.

Both failed because customers were wary of risking buying expensive aircraft from Japanese manufacturers with no track record.

The failures persuaded the government of the futility of building an independent Japanese aircraft industry, and from then on it concentrated on developing international links. That philosophy bore fruit as Japanese manufacturers developed a role as a component base for Boeing aircraft. Contracts to build 15 per cent of the Boeing 767, and 21 per cent of the new 777 that comes into service next year have helped build the nucleus of an industry, albeit one confirmed to medium-level technology such as the construction of wing-tips.

That dependence on international alliances is also behind the YSX. Initially, the government had planned to develop a small 70-seat aircraft, including possible involvement with European companies. But the YSX project which succeeded it now seems certain to be built, again with US co-operation from Boeing.

The collaboration will extend from manufacturing to marketing. While the Japanese government will be responsible for marketing the aircraft domestically, Boeing will sell it overseas.

The YSX, which will go into development in 1996 will have 90-100 seats – making it slightly smaller than the Boeing 737 – and is expected to meet the growing demand for regional aircraft, particularly in Asia.

Miti expects world demand of between 1,500 and 3,000 units in the first two decades of the 21st century.

Unusually in a country where government subsidy for the aerospace industry has been minimal, at least half of the research and development budget of Y2bn will be met by the government.

Although the industry sees the project as a harbinger of a real aerospace industry in Japan, critics are sceptical. "It will remain the same as past Japanese aerospace projects," says one analyst. "It will be essentially a sub-contracting job."

The principal aim of the YSX is to wean Japan's manufacturers off their dependence on the defence business. Despite the country's growing acceptance of an international role, the prospects for the domestic defence industry are no better than anywhere else in the world. In fact most observers think they are probably worse.

Japan has relied heavily on US technology for its airforce. Forbidden from building aircraft for seven years after the second world war, the Japanese manufacturers only started to put together an industry in 1952. Since then, it has lacked the technological know-how to catch up with US and European manufacturers. The vast majority of Japan's warplanes are US-built.

Aerospace as a whole is one of the few industries in which Japan runs a substantial trade deficit – of nearly Y500bn a year.

The bulk of the small domestic industry is committed to producing US equipment under licence for the Defence Agency. Only a handful of aircraft have been built independently, such as the C-1 transport, the T-2 trainer and the F-1 support fighter.

But in 1988 the Defence Agency announced plans to develop a new project, the FSX, with support from the US, based on the F-16 fighter. The new aircraft is scheduled to begin flights next summer, but orders are not expected to be high, and limited production is planned.

It is unlikely even to be the successor for the F-15 aircraft, the principal strike jet of the Japanese Air Force, since the Defence Agency itself is thought likely to stick with a more reliable US fighter. And since Japan is forbidden constitutionally from exporting military equipment, the prospects for the fighter do not look appealing.

Japan will continue to look to space to develop the aerospace industry, but there, too, competitive pressures mean the country's industry faces an up-hill struggle. In February, the country's first home-produced rocket, the H-2, was launched. The rocket, capable of carrying a two-tonne satellite, was two years behind schedule and is even further behind its principal competitors, the European Arianespace, and General Dynamics of the US in cost and efficacy. At Y19bn a launch, it is more than 50 per cent more expensive than the other two companies, and demand has so far been uninspiring.

Japan's aerospace industry needs to look further afield than the small domestic defence market that has been at its core for so long. The YSX is the centrepiece of this new strategy. But the nature of the project – a junior partnership in a US-led alliance, suggests that the Japanese aerospace industry is still not strong enough to stand alone. In the increasingly competitive market for aircraft, that will leave the country at a chronic disadvantage.

SERVICE INDUSTRIES

Inefficient structure

Visitors boarding a domestic flight at Haneda Airport in Tokyo will realise that high technology in Japan does not necessarily mean rationalisation of operations. At a ticket-cutting machine at the boarding gate, passengers hand their ticket to an airline employee who inserts it into the machine, then the stub is handed back to the passenger by another employee.

Such inefficiencies in Japan's service sector have been tolerated for decades in the name of "extra service". Banks, for example, have several employees standing at the door to greet customers, while "elevator girls" operate the elevators at leading department stores.

The economic implications have also been large because the sector has served as a buffer for unemployment, providing extra jobs when the economic conditions required it. Large manufacturing companies have tended to set up subsidiaries in service sector industries where unwanted employees can be shifted to.

However, the inefficient structure is now under fire because of deregulation and increased competition. Although heavy government regulation and the tolerance among consumers have helped maintain the low productivity of the domestic service sector, pressure from foreign governments has lowered barriers for new entrants while a new awareness of value is spreading among Japanese consumers.

According to Bain, the consultancy group, the productivity gap between service sector industries, including airlines, telecommunications, retail banking, general merchandise, and restaurants in the US and Japan is as large as 40 per cent. This gap, it said, had been "subsidised" by Japanese consumers, who were paying premium prices.

The changes are most apparent in the retail sector, where discounting has become a new trend. Japanese consumers, many of whom have travelled overseas, have started to question expensive domestic retail prices. The downturn in the economy has also prompted consumers to tighten their belts in search for value.

Deregulation of the large-scale retailing law, which controlled new store openings in order to protect small retailers, has spurred the increase of large supermarket chains' bulk purchasing power. The large-scale supermarket chains are bypassing the multilayered wholesale network, which has kept retail prices high, and are procuring merchandise directly from the manufacturers or producers.

A stronger anti-trust law, put in place following demands by the US government, has overturned the manufacturers' grip on retail prices. Large manufacturers had controlled the retail prices and prevented discounting of its products by threatening to stop supplies. However, electronics companies including Sony and Matsushita Electric Industrial, and leading breweries, have been warned by the Fair Trade Commission (FTC), Japan's anti-trust watchdog, to allow retailers to discount their products without fear of losing supply contracts.

McKinsey, the business consultants, believes that foreign retailers will now be able to bring in their innovative organisation, management and marketing skills which the traditional Japanese players lack.

With the rise in the yen prompting manufacturing industries to move overseas, combined with a rapidly-ageing population, and further domestic demand for added value, business leaders and many government officials see the service sector as a key to further growth in the Japanese economy.

For this, says the Keidanren, the business lobby, deregulation of government restrictions is essential. Deregulation will help the creation of new businesses and improve productivity in the service sectors, including sport, travel, telecommunications, multimedia and environmental businesses.

For example, the organisation estimates that deregulation of the telecommunications business will help the market, whose size is presently 1.4 per cent of gross domestic product, to grow to 2.7 per cent – the equivalent of that in the US – by the year 2000. This means the sector will grow by some Y6,000bn and an extra 280,000 jobs will be created.

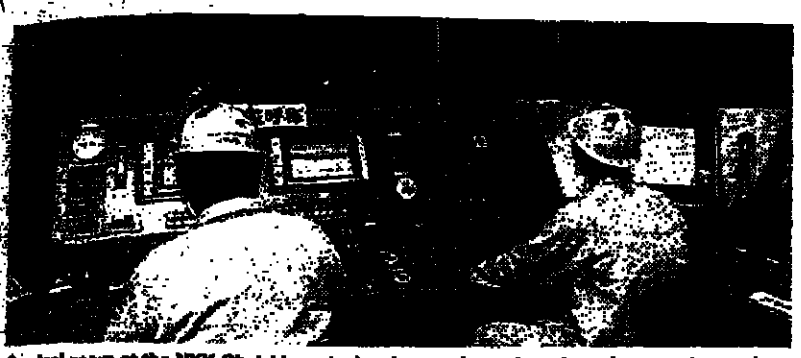
However, such changes may not come easily for some sectors of the service industry. Some branches of the government and some politicians are keen to protect certain interests and are the stumbling blocks to increasing the competitiveness within sectors which have traditionally been heavily regulated.

The airline industry met heavy opposition from Mr Shizuka Kamei, transport minister, when it tried to lower costs by hiring air hostesses on a contract basis. Although Mr Kamei finally approved the move, he had strongly opposed it on grounds of safety, claiming that the contract employees would not be able to co-operate with other air hostesses in an emergency.

Innovation has also been restricted within the retail banking sector due to heavy regulation by the Ministry of Finance and self censorship among the banks. A new deposit account introduced by Jonan Shinkin, a large credit association, which comes with a chance of winning a Y50,000 lottery, recently caused an uproar within the industry and an investigation by the regulators.

So far, with backing from the FTC and popular support from the public, Jonan has remained unscathed. However, the frenzied reaction which Jonan provoked within the financial sector and the ministry of finance, may have prompted other institutions trying to introduce competitive products to think twice.

Emiko Terazono



Control room at the NKK Ohgishima steelworks: running at less than 50 per cent capacity

Gerard Baker reports on heavy industry

Reckoning may be at hand

On an island in Tokyo Bay stands a living embodiment of the decline of Japan's primary industries.

Built in the 1970s, when demand for Japanese steel was multiplying, the massive Ohgishima Steel Mill was designed to produce 9m tonnes of crude steel a year, almost one-tenth of the country's total output. But a few years ago one of its two blast furnaces was extinguished and the mill, built by NKK, one of the country's five largest steel makers, is now running at less than 50 per cent capacity.

The mill is a concrete reminder of the overcapacity that dogs Japanese heavy industry. Despite years of falling demand for their product, Japanese companies have avoided taking the painful decisions that would keep them competitive in a region where new challenges from the emerging Asian economies grow more threatening every year.

In the past few years the high yen has forced them to look again at their chronic problems – over-capacity, high costs and inefficient production techniques.

Japan's heavy industrial behemoths have had longer to adjust to the straitened conditions of the recession that is just ending, but that advantage has hardly helped them. For the giant industries of steel and shipbuilding, the difficulties began in the 1970s with the first oil shock, and despite a recovery in the late 1970s and 1980s, crude steel production has never returned to its peak of just under 120m tonnes in 1973.

The recession of the early 1990s has exacerbated the decline. Weak global demand gave way in the last year to a genuine slump at home. In 1993, crude steel production was 99.6m tonnes, the second year in succession that Japan has produced less than 100m tonnes. In the first six months of 1994 production remained flat.

Exports have risen in the past year as a result of strengthening demand in Asia and the US, but the strong yen has eaten away manufacturers' profits. Domestic demand this year has remained weak. The coming year may see some improvement as as demand for higher-margin products such as cars, picks up, but the shift of much of the country's manufacturing capacity offshore means longer-term prospects are bleak.

The unaddressed problem is that the industry still needs wholesale restructuring. Total excess capacity is estimated at more than 20m tonnes. The number of hours worked in steel production per worker per year fell below the 2,000 mark in 1993 for the first time ever, but there have been only limited reductions in staff numbers. Employment fell from 309,000 in 1989 to 289,000 last year – barely matching the fall in production.

Mr Stephen Wolfe, industry analyst at UBS in Tokyo, says: "the steel industry is capable of producing 110m tonnes of crude steel a year, and yet by the year 2000 domestic demand will be for no more than 90m tonnes of active production."

The prospects for exporting the excess are slim. Although demand for steel in Asia remains strong as the regional economy continues to expand, Japan's ability to supply that demand is threatened by much cheaper steel elsewhere. Japanese prices are as much as 50 per cent higher than other countries' steel, especially Korea, and there seems to be little prospect of a narrowing of that differential.

Japanese shipbuilding, like the steel industry, reached its peak in the early 1970s and has struggled to adapt since. Following the slump in new building demand after the first oil shock, Japanese shipyards suffered their worst-ever decline. But, unlike their steel counterparts, shipbuilders made some progress in restructuring. Excess capacity was cut and the industry was able to weather the worst of the weak demand for ships in the 1980s, which saw ship prices fall sharply.

But just as the prospects for demand have begun to revive, and despite its efforts, it is an unhappy irony that the industry faces probably a greater immediate threat to its survival than any other Japanese sector.

In the next 10-15 years the combined effect of the ageing nature of the world tanker fleet and more stringent safety requirements which will boost the production of double-hulled ships, is likely to raise demand for ships.

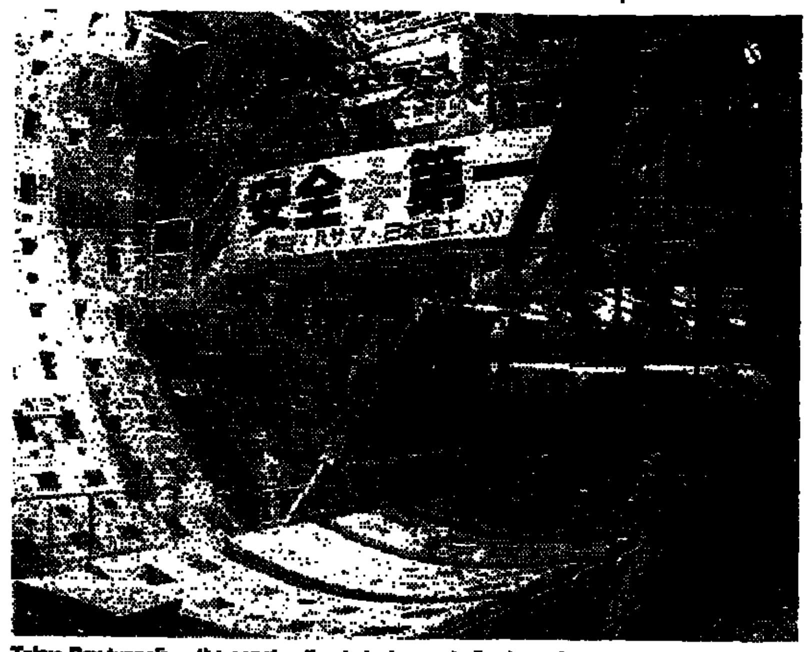
But late last year, the South Korean government gave the long-awaited go-ahead for a huge expansion of South Korean shipyard capacity and in the process signalled a bare-knuckled fight with the Japanese, one in which Korea has a critical advantage.

Japan and her principal rival both have roughly one-third of the global shipbuilding market. In the next three years, Korean capacity is set to expand by more than 50 per cent. The effect will be to drive prices down further – a price-cutting war that Japan seems set to lose.

Costs in Japan are way above those in South Korea – wages are on average more than double Korean wages, raw material costs are 10 per cent higher, and the strong yen has helped that country's shipbuilders gain a price advantage. The Japanese builders have indicated their willingness to cut costs further, but the scope for further reductions is limited.

According to Mr Timothy Marrable, shipping analyst at Barings Securities in Tokyo, "The massive expansion of Korean shipbuilding capacity is now a hard reality and spells disaster for Japan's shipbuilders."

But perhaps no industry is identified more closely with the traumas of the past few years than construction. Not only were the leading construction companies the immediate beneficiaries of the commercial property boom in the late 1980s, but through a series of well-publicised scandals involving bribes-for-contracts, they came to symbolise the web of problems at the core of Japan's economy.



Tokyo Bay tunnelling: the construction industry symbolised a web of problems Picture: Reuter

The enormous over-investment that was the most striking feature of the boom years seems likely to depress the industry for many years yet. Total orders fell by more than 60 per cent between 1991 and the middle of this year.

The one bright spot has been public sector orders, where fiscal stimulus packages in the last 18 months have helped bolster demand. But the difficulties seem set to continue. Companies are in many cases burdened with land bought at the peak of the boom, and with uncollectable debts from insolvent clients. Losses are at record highs.

Restructuring is more of a reality in the construction sector than elsewhere. The leading contractors have all virtually eliminated their overseas activities and have cut staff levels at home. But in a labour-intensive industry, there is little scope for genuine rationalisation.

The weakening of Japan's manufacturing sector – caused by excess capacity in the late 1980s, the subsequent recession and the surging yen – have eroded the country's industrial base. Much of the modern manufacturing that has powered Japanese growth in the past two decades has gone offshore where labour is cheaper and the currency weaker.

For Japan's primary industrial giants, many of whom have postponed their long-overdue restructuring, this unfortunate coincidence of adverse events means that the reckoning may soon be at hand.

Emiko Terazono examines industrial policy

Success has whittled away Miti's powers

A poll taken last year by the Nihon Keizai Shimbun, the Japanese leading business daily, revealed that Japan's leading bureaucrats thought the Ministry of International Trade and Industry (Miti) was third on the list of insignificant ministries and government agencies, following the Hokkaido Development Agency and the Food Agency.

Miti was once one of the most powerful institutions in Kasumigaseki, Japan's Whitehall, orchestrating the country's industrial policy in close co-operation with the business sector. However, now that Japan's has achieved economic success and the role of industrial policy in economic development has diminished, the ministry has been marginalised among even clannish bureaucrats.

Many economists agree that Miti's interventionist policy – based on identifying key growth industries, supporting them with enormous investment programmes and protecting them from foreign competition – has been largely successful. Industries such as petrochemicals, cars and electronics flourished under the wing of Miti in the 1960s and 1970s.

But economic success has whittled away Miti's powers. The rising strength of corporations has reduced the influence of the government's industrial policy, while the ministry's role of selecting and promoting industries has been limited by foreign pressure on Japanese exports.

"The ministry is a little like a poverty agency that has actually succeeded in eliminating poverty," says Mr Chalmers Johnson, professor of University of California, Berkeley, and author of *Miti and the Japanese Miracle*.

Increased criticism from businesses over informal administrative guidelines have also reduced the ministry's power. In the past, ministries such as Miti could withhold licences and legal permissions from businesses that did not follow the guidelines. However, rules governing administrative approval procedures, introduced to make the process more transparent, have made it difficult for bureaucrats to wield influence.

The ministry is also losing out in a power struggle with the Ministry of Post and Telecommunications (MPT) which began in the early 1980s for control over new potential growth sectors – namely the telecommunications and multimedia industries.

Mr James Vestal, economist at Barclays de Zoete Wedd in Tokyo and author of *Planning for Change*, a book which analyses the role of Miti, says that while its success in the 1950s provides lessons for developing countries, the argument that the west has something to learn from Japan's industrial policies now, is questionable.

He claims that there is little scope for industrial policy in solving the middle term issues which the country's economy faces. The biggest problem, unbalanced growth, comes as a result of corporate interests being placed over those of the consumer.

The lack of emphasis on consumption has led to a surplus of domestic savings over domestic investment which is at the root of the country's chronic current account surplus.

The underlying cause has been the willingness of Japanese workers to put the interests of the company before their own. Industrial or macro-economic policy cannot deal with this issue. Only a radical change in the way Japanese see themselves in relation to their employers will resolve it.

Nor can industrial policy solve the demographic changes which will soon hit Japanese economic growth. Pollution, another big problem, is also an issue which needs tackling outside industrial policy.

The lack of industrial models also makes it hard for the country to identify potential growth industries. Since Japan cannot follow other examples of industrial development, it is on equal standing with other industrialised countries in investing and promoting the development of new technologies.

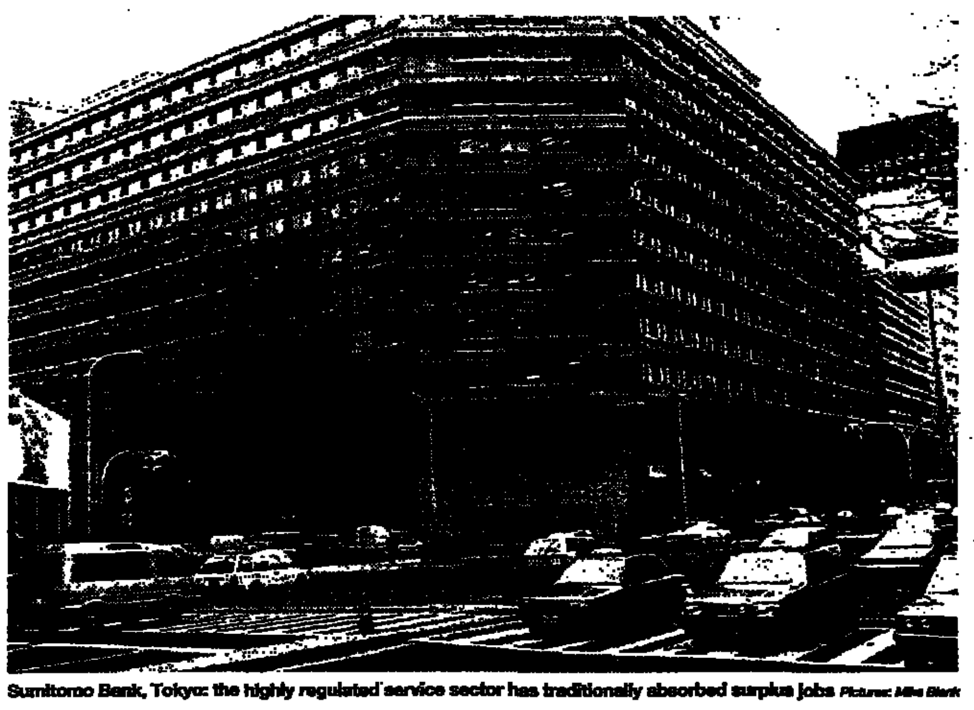
In its search for a new role, the ministry has started to undo its past policy failures. In the early 1980s it moved to save jobs in the petrochemical industry by organising a cartel of Japan's producers. This has left the industry fragmented with inefficient operations and costly products.

Aerospace, another industry that Miti has promoted since the 1960s, is also being reviewed.

The ministry is now promoting restructuring in the petrochemicals industry, encouraging mergers and cutting costs. Mitsubishi Kasei and Mitsubishi Petrochemical merged last October and Asahi Kasei is also undergoing rationalisation.

Miti has decided to side with the consumer, shifting from its role as promoter of industry. Miti has backed the country's product-liability law which will protect consumers against defective products. The bill passed parliament last June after nearly 20 years of debate.

The pro-consumer direction has also allowed Miti to regain its grip on certain industries. It is using its remaining powers of intervention to place market forces into the country's energy sector – including the gas and electricity utilities and the oil industry. In spite of heavy opposition from the industries, Miti is promoting the freeing of energy prices and the deregulation of distribution routes.



Sumitomo Bank, Tokyo: the highly regulated service sector has traditionally absorbed surplus jobs Picture: Mike Stark

William Dawkins on deregulation

Progress will be painfully slow

Paying a bill through a Japanese bank amply illustrates why Japan's path to deregulation will be painfully slow.

A white-gloved attendant bows respectfully as you enter, murmuring "Welcome dear customer." You are led to a ticket machine, which issues a numbered slip, indicating your place in the queue.

Another attendant hands the ticket from the machine to the the dear customer and ushers you to a comfortable chair, next to a rack well-stocked with scandal magazines and mail order catalogues. There you browse until your number is called.

The teller will then ask you to fill out a form, with duplicates, giving details of the money transfer. Cash only is accepted.

Yet at the end of all this, the funds are transferred electronically; at least that is before the dear customer is bowed out of the door again.

It is a costly system, paid for by customers – on the whole without complaint – in the form of bank charges two or three times European levels. Yet this kind of service, whether it be at department stores, filling stations or banks, has been until now a valuable staple of Japan's social structure.

The highly regulated service sector, generously sheltered from foreign competition, has traditionally absorbed surplus jobs, shed by internationally competitive manufacturing businesses. Banks are not legally obliged to perform these expensive rituals in their retail halls, but they are so protected from competition that they are under little pressure to break with comfortable old ways.

The service sector's ability to mop up jobs is one reason why Japan has been able to stay near or above US levels of competitiveness in manufacturing – depending on the sector – and yet lag 50 per cent behind it in some kinds of services, according to a study by McKinsey Global Institute.

However, that comfortable arrangement is up for renegotiation. It only worked so long as manufacturers could continue to race ahead in the world's export markets, and perform their traditional job of being the main motor of Japan's economic growth.

But US and European pressure to curb the trade surplus, combined with the squeeze on export profit margins imposed by the high yen, has obliged the Japanese government to turn to a new strategy, deregulation, as a way to increase the economy's capacity to grow.

If services could be made as efficient as manufacturing, the argument goes, Japan might rediscover the growth rates achieved in the heady 1980s.

Three Japanese administrations over the past year have recognised this and have accordingly begun to make progress in pushing away some of the more than 10,000 official rules and regulations that control an estimated 40 per cent of industrial activity.

For the first time in Japanese post-war politics, government, opposition and the main business lobbies officially favour deregulation – even if they sometimes appear to pay no more than lip-service to the idea.

As in previous deregulation drives, a decade ago, progress has run into resistance. Companies are reluctant to fire the men in white gloves, since redundancies remain socially unacceptable. Firing staff is seen as a sign of corporate weakness, at least until a large company gives the lead.

According to a recent study by the Keidanren, the business federation, deregulation on a scale to bring Japanese costs in line with US ones would initially put 2.84m people out of work, but would by the end of the decade stimulate growth enough to produce a net gain of 740,000 jobs.

On top of this, government departments are averse to giving up some of the powers they have used to control Japan's economy until now with such success. In Japan, vested interests make no sacrifices without being mollified first.

And yet there has been progress. It started with the popular attack on the bureaucracy launched just over a year ago by former prime minister Morihiro Hosokawa, Japan's first non-Liberal Democratic Party leader for 38 years.

The present prime minister, Mr Tomiichi Murayama, aims to continue, with a five-year deregulation programme starting in April 1995.

The main sectors to see the beginning of a change in the restrictive old ways are retailing, food, financial services and cars.

● Retailing: The Large Scale Retail Law, which governs planning consent and opening hours, has been relaxed twice in the past two years, most recently in May. This has removed local shopkeepers' power to veto a new supermarket and allowed stores to stay open later.

As a result the number of supermarket openings has quadrupled since May to about 80 a month. At the same time, imports of foreign consumer goods are growing rapidly, helped by the cheapness they derive from the rising yen.

● Food: The decision to allow, for the first time, limited rice imports, has weakened the power of the farm lobby, formerly fundamental to keeping the LDP in power. This is bad news for interest groups in other sectors. The rice import ban is to be gradually phased out from next year and replaced with tariffs.

There is a pay-off, of course, in the form of a Y6,010bn aid package.

● Financial services: Finance ministry officials are planning to step up the pace, motivated by the gradual loss of the capital markets' competitiveness to other markets in Asia and Europe.

So far, Japan's march to financial deregulation has been slow. It continued this year, with the end of government controls on ordinary savings and bank deposits, completing the freeing of interest rates begun in 1985.

This has encouraged banks to seek new ways to attract savers' patronage.

One credit group even offered savers a lottery prize, to the consternation of the finance ministry and the banking industry federation.

It may be a sign of things to come.

At the same time, the government in October permitted the large commercial banks to issue corporate bonds, for the first time. This privilege was granted to long-term credit banks last year and is the latest stage in a cautious dismantling of the barriers between banking and securities.

● Cars: There has been a slight loosening in car dealers' formerly rigid allegiance to single Japanese manufacturers, for business rather than deregulation reasons.

This, plus the yen's strength, lies behind a 93 per cent rise in car imports in the year to October, where they account for nearly 9 per cent of the Japanese market.

However, the government has not yet touched the barrier to trade most often cited by frustrated exporters, the "shaken" system. This is a costly test, obligatory after a car is three years old, which foreigners complain gives high volume producers an unfair advantage.

Mr Shoichiro Toyoda, president of the otherwise pro-deregulation Keidanren and chairman of Toyota, believes the system should stay as it is.

Bank of Tokyo HQ: banks are not legally obliged to perform the rituals

Emiko Terazono takes a look at the Keidanren

The old order is breaking down

For decades, the Federation of Employers Associations (Keidanren), Japan's leading business lobby, has acted as the control centre for businesses in realising the government's industrial policy, as the guardian of business interests, and as fund-raiser for the conservative Liberal Democratic Party.

However, the old order, where business, bureaucrats and politicians worked closely together to ensure Japan's economic success by directing funds to specific industries and keeping foreign competition out, is breaking down.

Political realignment which started last year, heightened criticism of the bureaucracy for its resistance to deregulation. Battered business confidence due to the prolonged recession has altered the relationship of the three parties known as the "iron triangle".

The influence of the Keidanren has also been undermined by the realisation among businesses that neither governmental nor political control can provide answers for the structural problems which Japan's industries face.

Amid such changes, the organisation is trying to promote itself as an instigator for deregulation. Earlier this year, Mr Shoichiro Toyoda, the chairman, asked then Prime Minister Tsutomu Hata to cut the number of bureaucratic regulations by half in the next five years.

The Keidanren believes that deregulation is essential to revive Japanese industry, presently stifled by bureaucratic and political intrusion. It sees deregulation also helping to remove the price differentials between consumer products in Japanese and overseas markets, and activating consumer confidence.

The Keidanren recently blew a whistle on the Ministry of International Trade and Industry for allegedly violating the law on administrative procedure, laid down last October. Complicated and unwritten bureaucratic decision-making has long been regarded as a regulatory barrier for new businesses. Companies, including foreign enterprises, have voiced complaints over the procedures.

The new law aims to make bureaucratic decision-making more transparent and to curb the influence of lobby groups on bureaucratic decisions by laying down rules for the processing of applications for government permits or licences.

The irony is, however, that while the Keidanren is an eager watchdog for the government's deregulatory process, many of the industries which the organisation oversees are beneficiaries of administrative guidance and other government regulations. This includes the motor industry, whose interests Mr Toyoda, also chairman of Toyota Motor, is keen to protect.

The car industry and the government are under pressure from the US to ease the vehicle inspection system which has long been blamed for making it costly for consumers to own the same car for more than five years, and encouraging regular replacement of vehicles.

The Keidanren is aware of the pain of deregulation. In a recent report, it predicts that full-scale deregulation would wipe Y10,000bn off gross domestic product and put 2.84m people out of work in the following few years.

And while it envisages the eventual benefits of deregulation as a net increase of 740,000 jobs and a Y177,000bn rise in the national wealth, it claims that the prerequisite for a successful transition is an improved infrastructure, telecommunications and social services.

How far the organisation can shrug off the vested interests it embodies and convince corporations to alter traditional practices in order to promote fully-fledged deregulation remains to be seen.

JAPAN IN ASIA

Tiger economies win market share

Japan's east-Asian neighbours have benefited from, and contributed to, the declining competitiveness of traditional sectors of Japanese manufacturing.

The most successful tiger economies, Taiwan and South Korea, have used their low labour costs and cheap currencies to win market share from Japan, in selected sectors such as steel and shipbuilding, where price is a more important determinant of market success than technology. Later developing economies such as Malaysia and Thailand are rapidly catching up for the same reason.

The tigers owe part of their economic success to Japanese industry's strategy of shifting production capacity for lower value-added goods to cheaper locations overseas, given fresh impetus recently by the yen's surge in value.

East Asia has been the main beneficiary of this fresh industrial investment, concentrated in the most capital- and labour-intensive sectors such as cars and consumer electronics. In these sectors, Japan's Asian neighbours are assembly bases rather than strong competitors, but their economies have nevertheless benefited.

Japanese direct investment in the region rose more than three-fold from $2.3bn in 1986 to $7.3bn in 1993, where it represents roughly one-fifth of Japanese investment worldwide. That proportion will nearly double, as a share of Japan's overall foreign investment, to 37.5 per cent this year, according to a survey by the Ministry of International Trade and Industry. At this rate, by the end of the decade east Asia will overtake the US as the largest recipient of Japanese industrial spending.

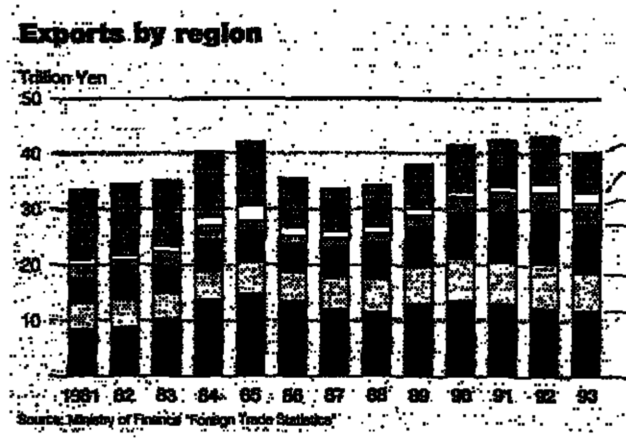
Within east Asia, the focus of Japan's corporate investment planners has recently switched from Hong Kong and Thailand to China. Japanese investment in China grew by nearly 58 per cent in the first half of last year, faster than anywhere else in the world.

Corporate Japan's Asian spending spree has stimulated a sharp rise in trade with its neighbours, as Japanese manufacturers export components and machines to their east Asian assembly plants. Helped by Japanese salaries, local economies' demand for foreign, often Japanese-made goods, has expanded.

Accordingly, Asia overtook the US as Japan's largest export destination in 1991 and last year Japan's trade surplus with the region surpassed its surplus with the US for the first time. Ten years ago, Japan exported a third more to the US than to Asia; now the balance is reversed.

Japan's trade surplus with the rest of Asia will continue to rise, believes Mr Susumu Taketomi, chief economist at the Industrial Bank of Japan (IBJ).

Exports by region



Trillion Yen	Region	Change on previous year (%)	Component ratio (%)
7.6	Others	-12.8	19.0
1.9	China	+26.5	4.8
3.6	Asean-4	+4.2	9.0
8.9	NIEs*	-2.7	22.3
6.3	EU	-20.2	15.7
11.7	US	-3.2	29.2

Source: Ministry of Finance 'Foreign Trade Statistics'

* S Korea, Taiwan, Hong Kong, Singapore

But Asian exports to Japan will grow fast enough to defuse serious political problems of the kind that bedevil Japan over its surplus with the US, he argues. "This surplus is healthy for Asian countries. They will probably succeed in upgrading their industrial structure so that they will show a surplus at the end of the century," he says.

Most Japanese manufacturers began in east Asia with basic assembly plants, fed with components made in Japan. As local economies grow and the yen continues to rise, the Japanese are now looking to expand their use of locally made components. An added incentive to do this is the need to avoid heavy import duties on part-assembled products.

Japan's industrial advance into east Asia has been led by sectors in which assembly forms a high share of costs, such as consumer electronics – as a result of which Japan last year became a net importer of colour televisions for the first time – and home appliances.

Examples include electronics giants Matsushita and Sharp in Malaysia, which have become so deeply embedded in the local economy that their combined local sales account for 6 per cent of the country's gross domestic product, according to the Japan External Trade Organisation.

So far, Japanese companies have reaped rich rewards from their Asian onslaught, all the more welcome when their domestic market is stuck in a painfully slow recovery from the longest recession in post-war years.

According to the IBJ, the operating profits of Asian offshoots, as a percentage of turnover, averaged 4.8 per cent in 1991, well above the 0.9 per cent average for overseas subsidiaries.

However, the shift of Japanese manufacturing capacity into east Asia is limited by two things. It will only happen in sectors where Japan is least competitive, because companies wish to keep control of key technology. It is unlikely to be at the direct expense of jobs at home, because of the continuing taboo against making redundancies in Japan.

Japanese companies still see an advantage in domestically producing those high technology products in which they lead world markets. Semiconductors are the obvious example, where manufacturing equipment for the newest and most powerful memories continues to be made in Japan, helping to ensure that east Asian chip-makers remain dependent on Japanese technology.

The IBJ's Mr Taketomi believes the growth rate of Japan's Asian investments will slow down in the years ahead, constrained by companies' unwillingness to break the taboo against making redundancies at home. There will be instead, he predicts, a reorganisation of Japanese investments within the region, away from relatively high cost areas such as Hong Kong into cheap ones such as southern China.

The Japanese government has played a cautious role in supporting Japanese industry's economic advance into Asia by gently pushing the cause of free trade in the region.

Until recently, Japan's Asian diplomacy strategy was one-dimensional: aid for trade. The Tokyo government disburses 60 per cent of its annual overseas aid budget – the world's largest – to the region, partly a hang-over from post-war reparations.

The new dimension is the shift in the government's attitude to the Asia-Pacific Economic Co-operation Forum (Apec) over the past year, from mildly negative to mildly positive. Indonesia's support for US-inspired efforts to use Apec to reduce barriers to trade and investment has helped Tokyo overcome some of its inhibitions over playing a part in Apec.

William Dawkins

Michiyo Nakamoto reports on trade conflict between Tokyo and the US

A particularly heated argument

In the latest round of trade negotiations between Japan and the US, one of the main arguments the US has mustered against Japan has been that internationally competitive US companies would have greater success in Japan if its markets were truly open.

The majority of sectors which US trade officials have cited as problem trade areas with Japan are those in which US companies have demonstrated competitiveness in other world markets but have, by and large, failed to make significant inroads in Japan.

The predicament of US telecommunications equipment makers trying to sell in Japan is a case in point. "US telecom manufacturers are among the most competitive in the world," the US government states in a paper on the framework negotiations. Yet the Japanese market, particularly in the area of government procurement, has been largely closed to foreign, including US, telecoms companies.

The closed nature of Japan's telecoms market can be seen from the fact that while other Group of Seven countries import about 25 per cent of their telecommunications needs, Japan imported just 5 per cent in 1992, the US argues.

"This imbalance stems from the obstacles foreign firms encounter in attempting to participate in the Japanese public sector procurement market," the US government says. Not only have foreign companies lacked access to information which is provided to Japanese companies, they have been disadvantaged by practices such as sole sourcing and discriminatory tender specifications.

The same goes for the medical equipment market. US manufacturers account for 40 per cent of the public and private market in the European Union, but less than half that in the Japanese market, Mr Mickey Kantor US Trade Representative Ambassador has stated.

The argument that US industry, despite its international competitiveness, is prevented from penetrating Japan's markets, becomes a particularly heated one when applied to the vehicle industry.

US frustration about its inability to make a wider mark in Japan's vehicle market has intensified over the past few years not only because two-thirds of the near-$60bn annual US trade deficit with Japan stems from vehicles and vehicle parts, but increasingly because of a renewed confidence in the US industry's competitiveness vis-a-vis Japanese vehicle makers.

"The US has re-emerged as the world's largest producer of automobiles," noted Ms Joan Spero, US under-secretary of state for economic and agricultural affairs, in a speech earlier this year.

The quality of US cars is also seen to have improved markedly. US companies "are getting the quality message too. (They) have been making a serious effort to improve the quality of the goods and services they produce, and it shows," Ms Spero said. Surveys in the US indicate that a growing number of Americans now believe American cars are even better than Japanese cars.

On top of their increased competitiveness, US vehicle companies have stepped up efforts to penetrate the Japanese market.

Yet the closed nature of the Japanese vehicle market has worked to frustrate such efforts. Foreign vehicle manufacturers lack access to information on the car market, come up against regulations and business practices which hinder sales of foreign-made car parts to the after-market in Japan, and the close relationships which tie dealers to Japanese car makers.

The situation is blamed for the small share, about 3 per cent, that foreign, including US, vehicle makers had for long been relegated to in the Japanese market against the 20 to 30 per cent share which Japanese companies have recently enjoyed in the US.

Although the foreign share of Japan's vehicle market has risen substantially closer to about 10 per cent this year, this has owed more to a favourable exchange rate and intensified marketing by foreign companies rather than improvements in market access.

Improved US competitiveness in cars and other industries means that "the old rhetoric in Japan – the rhetoric that says that the trade deficit is America's fault because of our low product quality or because our companies don't try hard enough to export – that rhetoric simply does not ring true any more," Ms Spero asserts. This argument has been used to support US claims that Japanese markets do not function like "normal" markets do in free trade economies and was behind a "results-oriented" approach adopted by the administration of President Clinton.

However, as the year-long experience of the bilateral framework negotiations made clear, the US approach failed to win widespread public support not only in Japan but in Europe, Asia and even in the US.

While many people, including Japanese businessmen, would no doubt agree that competitive US companies probably face greater obstacles in Japan than they would in most other industrialised countries, the results-oriented approach advocated by the Clinton trade team raised suspicions that it would benefit mainly specific companies in chosen industries which the US government had deemed competitive. After bilateral agreements were reached in November to most of the priority sectors, that suspicion remains.

This month, Sir Leon Brittan, European Commissioner for External Relations, voiced concern that the bilateral agreements would benefit US companies at the expense of European ones.

In a recent report, Ms Mineko Sasaki-Smith, economist at Morgan Stanely, the US investment bank, argues that the benefits from the framework agreements "*may accrue to individual firms in the* targeted sectors but are unlikely to have a major impact on the big picture of Japan's trade-current account surplus." In fact, based on rough, hypothetical estimates, the bilateral agreements are likely to cut the US trade deficit with Japan by just $404m – or less than 1 per cent – she notes.

Many economists and public officials agree that a far more effective approach to reducing Japan's surplus would be to stimulate domestic demand through deregulation measures that would create a level playing field for foreign companies in Japan.

After a year of battling against widespread public criticism of its results-oriented approach, and having reached agreements on some of the most contentious issues in the framework talks, the US government now appears to be channeling its energies in that direction.

It has submitted to the Japanese government a detailed list of deregulation and administrative reform measures which it states "can... provide greater market access for foreign goods, services and investment and... generally promote the domestic demand-led growth of the Japanese economy."

Job-hunting: students meet personnel staff from 676 companies at a recruitment session held at Tokyo Dome in September *Picture: Reuter*

Reform is needed for a more competitive Japan, says **Emiko Terazono**

Education system criticised

Mr Masashi Kojima, president of Nippon Telegraph and Telephone, the largest telecommunications operator, has grave concerns about Japan's competitiveness in the future global multimedia race.

The underlying problem, he believes, is Japan's education system, which encourages students to memorise rather than indulge in creative thought, and is geared to creating disciplined, quality labourers.

Such concerns have been voiced over the past decade as Japanese industry has caught up with the world and has been forced to compete to stay ahead in the technology race. The increasing importance of patents has also made creativity more valuable. A Japanese Nobel prize scientist and resident researcher at a US university claimed in 1987 that he would not have won the prize if he were still in Japan.

Education not only affects industry's competitiveness, but also the country's political system and its role in the international arena. Mr Ichiro Ozawa, the back-room strategist of the present political realignment, believes that education is the underlying problem for Japan's system of government.

In his book *Blueprint for Building a New Japan* he writes that democracy has never really taken root in Japan partly because of an education system designed to stamp out independent thought. He believes the system is too rigid at school level and and too dull at the university stage.

However, the business world needs to realise that it bears some of the responsibility for the educational system's "creativity problem". In the 1960s, representatives of leading business federations suggested measures for a partial reform of the national education system to suit their interests.

The Federation of Employers' Organisations (Nikkeiren), and other business organisations came up with proposals which were incorporated in an outline prepared by the government's central education committee. The proposals were reflected in the government's curriculum. Based on the measures, students have been divided into five grades to determine which schools on the higher levels they would advance to, creating pressures for pupils to cram at an early age.

Another criticism has been that the Japanese system focuses too much on equality, which threatens to stifle the creativity of talented students.

The Ministry of Education and the country's leading universities have started to correct this problem and are implementing a programme which allows high-school students excelling in maths and physics to attend courses taught by university instructors.

The programme is intended to allow talented pupils to escape the constraints of the uniform education system and the pressures of the fierce competition for university entrance exams.

Mr Martin Phillips, head of education services at the British Council in Tokyo, believes pressures from society as a whole will bring about changes in the education system. "The attitudes of the young today are very different from their parents," he says.

But conformity is still a virtue and open debate is rare in Japan. A rigid hierarchy still governs almost every aspect of Japanese life, including academia, bureaucracy, and politics. In a business world which is no different and still strongly adheres to such values, individual and creative thinking may take time to root.

FINANCE AND INDUSTRY

Different sides of same story

When Mr Takanobu Matsuda decided his company needed slimming down if it was to compete in the harsher economic climate of the 1990s, he knew he would require a little financial assistance from his banks.

The cost of severance payments for some of Matsuda Denshi Kyogo's employees could not be met from the small electronic manufacturer's own coffers, so Mr Matsuda asked his local banks for a loan. But he got nowhere.

None of the bankers in the Nagano area of northern Japan was prepared to take the risk of advancing him the money he needed. He eventually found the money by digging deep and trimming his restructuring plans, but he blames the banks for his troubles.

Meanwhile in Tokyo, managers at a branch of one of the largest commercial banks tell a rather different story. For months they have been enjoined by their management to look for sound lending opportunities. But demand for their funds, they say, has never been weaker.

The outlook has become so grim that they have taken to cutting their lending rates to larger corporate customers in an increasingly desperate effort to lure them back into the money market, despite the steady rise in their cost of funds this year.

In a curious way both Mr Matsuda and the luckless Tokyo bankers tell different sides of the same story of Japanese corporate financing in the mid-1990s; the country has entered a kind of financial stasis. For the first time in living memory, bank lending has actually dropped for four months in a row.

Supply of and demand for lending has fallen. But the problem is a mismatch. Banks want to lend to large, safe corporate customers. But they won't bite. Smaller companies are eager to borrow, but banks are wary of lending to them.

For years, Japan's banks were the life-blood of the country's economy. Under the strict tutelage of the authorities, banks acted as a conduit to channel the huge savings of Japanese households into industrial lending. They paid rock-bottom interest rates to their depositors and they lent it on at similarly low rates to industry.

The equation was simple and it worked. As Japan's economy emerged from the debris of the second world war, the money was plentiful and cheap, and corporations used it wisely, building an industrial base that would, in time, dwarf most of its rivals.

But that happy tale of almost uninterrupted growth ended in the chaotic bubble economy of the late 1980s. Financial liberalisation and rapid economic growth created a speculative boom that started in Tokyo and spread throughout the country like wildfire. The explosion of asset prices embraced everything – land, stocks, even golf-club membership fees.

Industry, too, flourished as the higher prices raised wealth and demand and enabled companies to expand. But in 1990 the bubble burst and Japan's economy suffered.

For the banks the collapse of the bubble meant a mountain of bad debts as lending secured on over-inflated asset prices quickly became worthless. Between 1992 and September 1994, disclosed bad loans at the largest Japanese banks quadrupled, and on average now represent nearly 3 per cent of total loans. The true total is almost certainly much higher, since banks are not obliged to disclose all their non-performing loans.

They have spent the past few years beginning the task of unpicking the problem. As a result they are highly cautious about lending to the type of smaller growth companies that fuelled the boom of the 1980s but collapsed so spectacularly in the 1990s.

For industry it meant a pile of over-accumulated capital investment. For four years, they have been caught in a downward spiral of falling demand leaving them with excess capacity and lower profitability. New orders for machinery declined by nearly 30 per cent between 1990 and the first half of this year and have been flat since. Few large companies are willing or able yet to borrow to finance an expansion.

In the past year, the slow economic thaw has created the demand-and-supply mismatch. As banks work through their bad debt problems they have started to allocate more lending to larger companies, on the grounds that security is stronger at such corporations and a repeat of the bubble years is unlikely.

According to Ms Alicia Ogawa, banking analyst at Salomon Brothers in Tokyo, demand from large companies is so low that "banks are having to discount their product in order to keep demand alive – by contracting loans at below the prime lending rate." But smaller companies are still considered too great a risk for many bankers.

The lower property prices mean that banks have cut their credit lines

The underlying problem, according to many analysts, is that banks' lending policies are hidebound by an attachment to land prices. More than a quarter of all bank lending is collateralised by land and property. Many companies are refinancing their borrowing on the basis of the new, much lower, land prices that prevail today. The lower property prices mean banks have cut their credit lines, making it more difficult for companies to expand.

Land prices are continuing to fall, dropping by 5 per cent in the principal cities in the past year. That makes banks' lending policies still restrictive for smaller borrowers. Some lenders have started to shift towards a more innovative (in Japanese terms) policy of tying lending to expected future cash-flow, but the fall-out from the bubble economy is so great that most are still reluctant to break the familiar link with land collateral.

Smaller companies have been borrowing in far greater volume from the public institutions and that has offset some of the tight conditions in the private sector market.

But just as there is little sign of an upturn in land prices that will help the smaller companies to increase borrowing, there is scant evidence that the larger corporations are eager to start borrowing again.

Corporate profitability is still at wafer-thin margins, and much of industry remains plagued by overcapacity. And when businesses do return to the financial markets they look likely to follow the growing trend towards corporate bond issuance. In Japan's over-regulated financial markets that may mean more business going overseas since corporate bond issuance in Japan is still encumbered by a restrictive regulatory framework.

If the mismatch is to be redressed, banks must either change their lending policies, land prices must rise sharply, or there must be an early return to strong growth. Since none of those three possibilities seems likely in the next year or so, the constrained market for capital seems set to continue.

Gerard Baker

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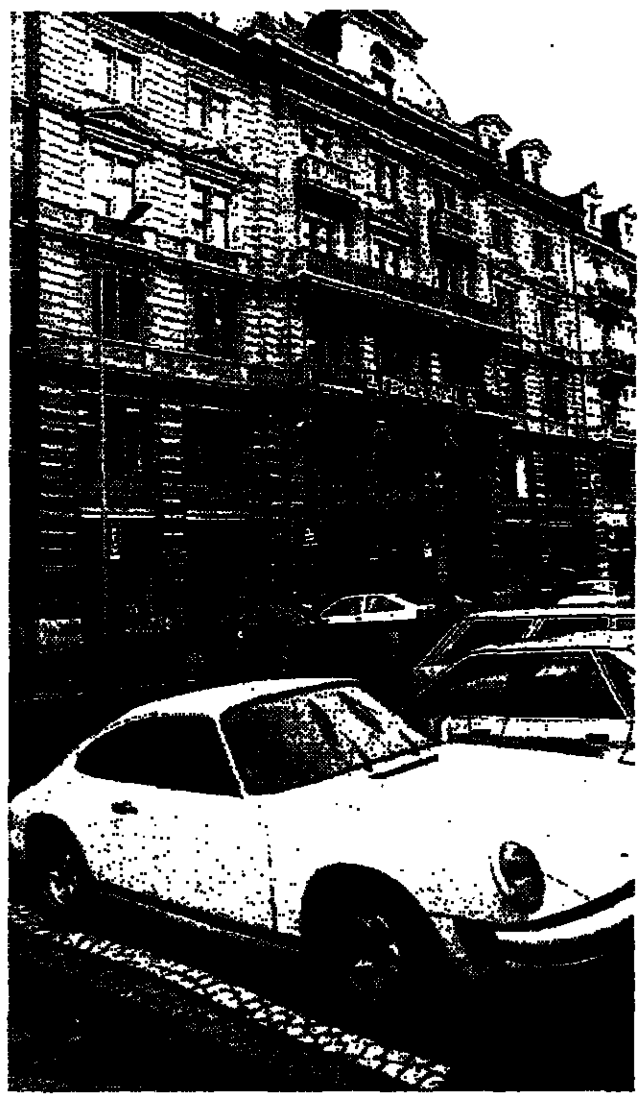
SWISS BANKING

Tuesday December 6 1994



Foreign banks in Zurich: Nordfinanz Bank (above) and Bank Audi (right). Martin Ebner (below) took on Union Bank of Switzerland *Main photos: Tony Andrews*

Open, competitive, lively – and Swiss

Ian Rodger looks at how the country's financial centre is adapting to greater foreign competition and a future outside the European Union

The Swiss financial community is having a difficult but productive year. Profits are hard to come by, especially when compared with 1993, but a surprising amount of progress is being made towards consolidating and improving the financial centre's openness and competitiveness.

Two years after the Swiss people rejected in a referendum the path towards integration with the European Union, there is no moaning in the financial community about any negative effects of isolation.

On the contrary, the talk is all of a continuing strong inflow of investment funds from neighbouring EU countries and of how the new national electronic stock exchange will bring back share trading volume from London's Seaq International.

Meanwhile, the unprecedented proxy battle last month between Mr Martin Ebner, the maverick Zurich broker-fund manager, and the board of Union Bank of Switzerland has raised expectations that Swiss shareholders will take more interest in the governance of their companies than they have in the past.

It all points to a more lively future for Finanzplatz Schweiz than many bankers would have hoped for a few years ago. If only business would improve, Swiss bankers might even admit to being moderately content.

After the boom last year in virtually every banking sector, it was to be expected that things would be tougher this year. The end of the declining trend in interest rates and a 16 per cent slide in stock market prices since the peak at the end of January have been particularly painful for the many banks that specialise in fund management. Sharp falls in income from own trading have become the norm.

The accelerating pace of consolidation among smaller regional banks has intensified the struggle for market share in domestic commercial business, at the expense of margins. All three big universal banks, Credit Suisse, Swiss Bank Corporation and UBS, reported lower net interest income in the first nine months of the year.

Following the December 1992 referendum vote against joining the European Economic Area, the Swiss government launched a programme unilaterally to harmonise laws with EU practice, wherever possible. In the financial area, the fruits of that effort are about to appear, much more quickly than many Swiss expected.

■ A new banking law comes into force on January 1 that legalises assistance between Swiss and foreign banks on administrative matters and permits foreign-owned banks to provide information on large risks to their parents.

It also simplifies the process by which domestic banks prove they are Swiss-owned and thereby entitled to use the word Swiss in their names. Henceforth, large shareholders of banks must disclose their holdings, and the Federal Banking Commission has the right to disenfranchise those it considers undesirable. It was this reform that emboldened UBS in September to propose removing all ownership restrictions on its registered shares.

■ An investment trust law also comes into force at the beginning of the year, supplanting an antique law that does not permit the formation of many popular types of funds. As a result, much fund business left Switzerland, mainly for Luxembourg.

Until a few months ago, Swiss bankers cautiously predicted that the main impact of the new law would be to encourage fund managers to set up their new investment funds in Switzerland. Now they think there could be some repatriation of funds from Luxembourg as well.

■ Next June, the Swiss stock exchanges will go electronic, uniting in one market the volume that was hitherto dissipated over three regional exchanges. Most members are confident that there will be an increase in liquidity and a lowering of transaction costs, which will encourage traders to bring volume back from London.

Barring unforeseen problems in parliament, a new national stock exchange law will come into force at about the same time, bringing with it important protections for investors and companies.

The inclusion of a takeover code will remove the justification for severe restrictions on voting that still exist over many Swiss shares. The directors of Nestlé, where no shareholder may exercise more than 3 per cent of the votes, have already signalled that they would propose removing the curbs once the code is in place.

Meanwhile, the government has implemented three new measures to facilitate its fight against money launderers. Bankers now have the right to denounce suspicious clients. Previously, such a move conflicted with bank secrecy requirements.

For its part, the government now has the right to confiscate funds found to be held in Swiss banks by criminals.

And membership of a criminal organisation has become a criminal offence. That means that Swiss courts can co-operate with foreign prosecutors in cases involving the Mafia and other criminal organisations, without further specific charges being involved.

All these measures appear to be having positive effects. After a period in which foreign banks were tending to close or downgrade their Swiss bases, new ones are now being opened.

The most significant recent expansion is probably that by Goldman Sachs, the leading US investment bank. Its Zurich operation, a small brokerage-based private banking branch in 1991, has moved into fund management, institutional sales and derivatives issuing, and has become a member of the Zurich Stock Exchange. The staff now numbers more than 100.

Some German savings banks are planning to open Swiss offices because their clients fear that Luxembourg, now their favourite haven, will be forced to harmonise its tax policies with those of other EU members.

Unfortunately, these arrivals are unlikely to be enough to offset the massive personnel reductions that are expected on the Swiss financial scene in the next few years.

Mr Bruno Gehrig, a professor at the Swiss Institute for Banking and Finance in St Gallen and a member of the Federal Banking Commission, said in a speech last week in Zurich that the retail banking sector, which now employs about 90,000, would have to fall by as much as 20 per cent if it was to return to health.

That process could happen quite quickly by Swiss standards in the wake of the landmark proxy battle last month between the UBS board and Mr Martin Ebner over the governance of the bank.

The UBS board won the battle, which was ostensibly over its proposal to convert all registered shares into bearer shares, at a dramatic extraordinary shareholders' meeting.

But Mr Ebner received wide support for his case that the bank should improve its returns to shareholders by focusing more on its successful activities and scaling down its unprofitable domestic retail business.

It is still too early to foresee all the consequences of the UBS-Ebner confrontation, not least because of potential legal appeals. But improving shareholder value is clearly a theme whose time has come to Switzerland.

Even Mr Gehrig used it to support his call for rationalising the troubled retail sector. "The average domestic banking operation does not make enough money to yield what shareholders require," he said.

SWISS BANKING 2

Ian Rodger on the problems facing the country's top banking groups

A bad year for the big three

For Switzerland's three big banking groups, CS Holding, Swiss Bank Corporation and Union Bank of Switzerland, 1994 will go down as a year they would rather forget.

This not just or even mainly because of the epic row that the UBS board and management have been fighting with the bank's largest and most critical shareholder, BK Vision. Rather, it is because of the startling fall in their earnings performance from the record levels achieved last year, and the subsequent questions raised about the quality of their management and earnings.

On the common basis of profits before taxes and provisions, the UBS result in the first half was down 28.6 per cent to SFr1.97bn, Swiss Bank Corporation down 45.1 per cent to SFr1.19bn and CS Holding, the group built around Credit Suisse, off 30 per cent to SFr1.97bn.

The main cause of these profit slides has been big declines in income from trading, the money the banks make from dealing in foreign currencies and trading in bonds, shares and other securities for their own account.

UBS was hit hardest, with a 68 per cent plunge in trading income to SFr493m, and SBC was not far behind with a 63 per cent fall to SFr537m. CS profit on trading was down 43 per cent to SFr1.27bn.

The banks' leaders have been quick to point out that many of their international rivals, including J.P. Morgan of the US and S.G. Warburg of Britain, fared far worse in the difficult conditions that have prevailed in global securities markets this year.

Nevertheless, analysts have concluded that the overall quality of the banks' earnings is not what it used to be when trading formed a smaller part of their overall profits. And that has been a main reason for a downward rerating of their shares.

Bank Julius Baer, for example, sees the current prices of CS Holding as only 10.3 times projected 1995 earnings, about half a point lower than its rating a year ago. SBC has been similarly downgraded to 8.2 times. Baer's rating of UBS has held firm at 12.1 times, but that was distorted by the effect of the recent proxy battle.

The banks themselves insist that the sharp decline in their trading results this year is within tolerable limits. It looks particularly bad, they argue, because last year was an exceptionally profitable year in this volatile area.

They also say that they have little choice but to be involved in sophisticated derivative markets if they are to continue to be active in international corporate banking.

The potential for that business is also coming under question. In the past few years, Swiss banks had a relatively *easy time because many big* American and Japanese banks had retreated from the field. Now they are returning, and competition will become tougher.

The other disappointment this year has been in the domestic commercial banking market. There were hopes after the takeover by Credit Suisse of Swiss Volksbank last year that competitive pressures would ease and margins on retail and commercial lending could rise to profitable levels.

However, this does not appear to have happened. The continuing rapid consolidation in the regional bank sector has, if anything, intensified the struggle for market share among the big banks.

CS was again the main player in this process, with its SFr905.6m rescue package and agreed takeover bid for Neue Aargauer Bank (NAB), Switzerland's largest regional bank, in September.

To make matters worse, both SBC and CS acknowledged that in the third quarter their hitherto resilient commission businesses, based mainly on their large portfolio management activities, had also weakened.

This altogether unsatisfactory performance created a useful background for the extraordinary challenge by Mr Martin Ebner over the overall corporate governance of UBS.

Whatever the ultimate result of the confrontation between Mr Ebner and the UBS board, it is already clear that it will have a big impact on the future of all three big banks.

When UBS announced that it would eliminate its registered shares and create a single class of bearer shares with no restrictions, it said this would be a move that would be followed by other Swiss banks and companies.

Both CS and SBC have two classes of shares and even more severe restrictions on *voting them than UBS. At CS,* no one can vote more than 2 per cent of the shares. At SBC, only Swiss citizens and legal entities with residence in Switzerland and Swiss control can vote up to a maximum of 5 per cent of the total share capital.

Paradoxically, while UBS removed its restrictions to see off a challenge to its governance from dissident shareholders, CS and SBC will probably want to achieve the same end by retaining such curbs.

CS has served its shareholders no better than UBS in the *past decade and SBC has done* much worse *(see chart)*. But because of the voting restrictions, it would be very difficult for anyone to rally enough shares to put real pressure on the directors of these banks.

Nevertheless, it will also become increasingly hard for the banks' directors to justify retaining the restrictions. As UBS pointed out, there will soon be other ways of ensuring that ownership does not fall into undesirable hands.

From January 1, banking law provisions, which restrict *the use of the word* "Swiss" in bank names, will be altered. Until now, a bank has had to prove that at least half its capital is held by Swiss interests. Henceforth, only voting interests of more than 10 per cent will be taken into account.

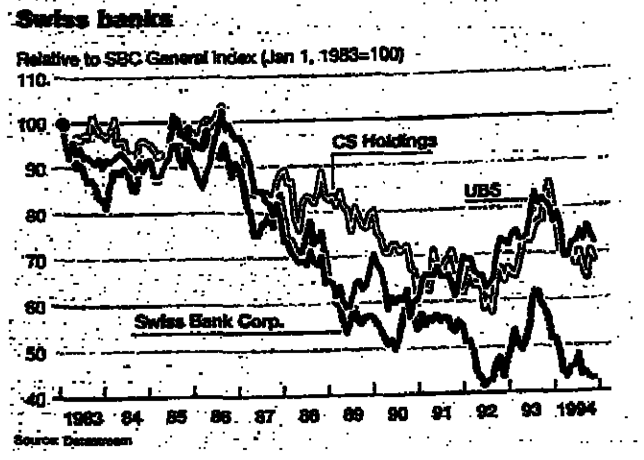
Moreover, the law will for the first time oblige shareholders to notify the Swiss Banking Commission if and when they acquire stakes of more than 10 per cent, 20 per cent, 33 per cent and 50 per cent.

The commission will have the right to suspend the voting rights of large shareholders if it considers their influence would hurt the proper conduct of the bank's management.

A liberalisation earlier this year of the law restricting foreign ownership of Swiss property (and further steps pending) also makes it less important for the banks to be able to prove majority Swiss ownership.

CS refuses to comment on the possible removal of voting restrictions, and SBC says no changes are foreseen. However, it is clear they have seen the signals. Mr Peter Wuffli, chief financial officer at SBC, said in a speech three days after the UBS vote that the bank was trying to transform itself, putting more emphasis on value for shareholders and less on the size of its balance sheet.

Swiss banks



Profile: BANK AM BELLEVUE

Biotechnology's new champion

It was probably inevitable that Mr Martin Ebner's highly successful BZ banking group, in the headlines recently over its epic tussle with the board of Union Bank of Switzerland, would attract imitators.

So far, the most conspicuous one is the Bellevue group, built around a small brokerage house, Bank am Bellevue, established a year and a half ago in Zurich.

Like BZ, Bank am Bellevue's offices are in open plan on the top floor of a building that houses a downmarket department store. Like BZ, it operates with only a skeleton staff and concentrates on rigorous financial analysis of top quoted companies for a small number of large institutional clients.

These similarities are not accidental. BB, as it has become known, was formed by Mr Ernst Müller-Möhl and Mr Martin Bisang, former directors of BZ, and Mr Jörg Graf, Mr Ebner's successor as head of research at Bank J. Vontobel.

Their view was that there were still great opportunities for revaluation of many leading Swiss equities, partly as a result of the companies becoming more transparent about their affairs, partly because of an increase by Swiss institutions in their allocation of funds to equities and partly due to industrial restructuring.

The Bellevue brokerage business, with a staff of 18, was an immediate success, achieving a net income of SFr6m in its first five months of existence to the end of 1993.

Also like BZ, the Bellevue group has diversified into investment fund management and sees there its greatest potential. Indeed, it achieved international notice earlier this year when its BB Biotech fund disclosed that its stake, in Biogen, a leading US biotechnology company, had exceeded 5 per cent.

BB Biotech was set up by Bellevue last autumn in response to its Swiss clients' demands for a vehicle that would give them exposure to the most exciting part of the pharmaceutical industry without having to take the more humdrum part as well.

The fund's strategy – again similar to that practised by BZ funds – has been to focus on only a small number of pure biotechnology stocks. And Bellevue has used the limited company as a structure rather than an open or closed end trust.

Mr Bisang, who now heads Bellevue Asset Management, the group's asset management arm, says the advantages of the limited company are that the shares can be listed and traded like those of any other company and there has to be a clearly identifiable responsible board. The main disadvantage, tax liability for income and capital gains, can be minimised, he says.

The initial public offering of shares in BB Biotech attracted SFr325m and the fund raised a further SFr150m in February through a free warrants rights issue, making it one of the world's biggest funds devoted to biotechnology stocks.

At the end of August, nearly two-thirds of its money was invested in only two US stocks, Biogen and Genentech, with the remainder in Amgen and a small new stake in Affymax, a California-based leader in combinatorial chemistry.

In common with the whole biotechnology sector, the shares have weakened in recent months, but have remained well above both the average of US pharmaceutical shares and the CBOE biotech index, in spite of the strength of the Swiss franc against the dollar.

Mr Bisang says BB Biotech will in future allocate up to 20 per cent of its funds to second tier companies, mainly through participating in private placements.

Last summer, Bellevue Asset Management set up a second fund, BB Industrie Holding, showing its interest in Swiss industrial restructurings. Its first stakes were in companies specialising in textile machinery and office building controls systems, both sectors where the potential for consolidation among Swiss players is considerable.

The Bellevue group does not object to comparisons with the BZ group, but likes to think of itself as a step or two ahead of its mentor towards investor friendliness and transparency. The identities of the investors in the group – all are directors or employees – are disclosed and both the boards and the management of the brokerage house and the asset management arm are kept separate.

All the group companies have a single class share structure whereas BZ entities have dual class structures, giving the core shareholders greater voting power than other shareholders.

Bellevue also has rather more distinguished external experts on its boards than does BZ. Mr David Baltimore, a Nobel prize winning biotechnology professor at the Massachusetts Institute of Technology, sits on the BB Biotech board. Dr Ernst Thomke, one of the developers of the Swatch watch, sits on the BB Industrie board.

Mr Bisang, who heads Bellevue Asset Management, says the group has many more ideas for funds, but is waiting until market conditions are more propitious.

Ian Rodger

■ FUTURES AND OPTIONS

Fees cut as trade rises

Soffex, the electronic exchange for options and futures on Swiss securities, has had a good year in spite of the poor performance of the underlying share market, writes Ian Rodger.

And that seems to be mainly because it offers investors the opportunity to move quickly on both the put and call sides.

By the end of October, the number of option contracts traded on stocks by its 54 members was 15.3m, 14 per cent more than in the whole of last year. Option contracts traded on the Swiss Market Index (SMI) totalled 5.6m by the end of October, and Mr Otto Nägeli, chief executive of Soffex, is forecasting 6.7m for the full year, a 20 per cent advance over last year.

Volume in the first 10 months on the futures contract on Swiss government bonds (CONF) was 890,000 contracts, more than three times the 271,000 traded in the whole of last year. "That is an astonishing figure by Swiss standards, taking account of the limited experience with these instruments," Mr Nägeli says.

As a result of the increased volumes, Soffex recently announced fee reductions for next year, including a consolidation of fee zones from six to three. Fees on futures have also been cut, notably the physical delivery fee on the CONF future from SFr5 to SFr2.

Soffex introduced a long-term (18 months) option last May. It is on the SMI index, and so far accounts for only a small part of total SMI option trading – for example, 6 per cent in September. Mr Nägeli says the open interest volume – 35,000 at the end of October – is a better indicator of its popularity as it is more of an investment vehicle than one for trading.

By contrast, the option on CONF futures, launched in January, has not been a success, with only some 50,000 contracts traded since its introduction. "It is difficult to get people to buy an option on a derivative," he admits.

The exchange may introduce long-term options on individual stocks, but will not launch any products until the integration with the new Swiss electronic stock exchange is completed next year.

Soffex attracted some criticism a year ago for halting its plan to permit cross-border trading, apparently because its directors wanted to postpone expansion until after the planned integration with the Swiss stock exchanges.

However, last May, it created a Frankfurt access point through the Deutsche Terminbörse (DTB) and accepted three Frankfurt-based banks as members. Similar arrangements with brokers in other countries depend on the attitude of regulators to the sharing of jurisdiction.

The trend in Switzerland's two other derivative product markets this year has sharply diverged. Participants in the over-the-counter market say that it has continued to grow, but at a more moderate rate than in 1993. As with Soffex, investors can buy products to take advantage of falling prices. "We are very satisfied with the overall volume," a Swiss Bank Corporation derivatives trader in Zurich says.

By contrast, the listed option market has had a terrible year. The value of listed options traded on Swiss stock exchanges plunged from a frenzied SFr4.5bn as the market reached its peak in January to only SFr756.9m in October.

OZ Holding, the subsidiary of Mr Martin Ebner's BZ banking group, accumulated a loss of SFr12.6m in the first nine months compared with a SFr21.5m profit in the same period of 1993. Mr Ebner noted in his report to shareholders in October that the market was characterised by low trading volumes and low prices.

Analysts say that the listed market is mainly for call warrants, which anticipate price rises in underlying shares.

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Frances Williams looks at the reasons for the slowdown

Economy pauses for breath

After a strong recovery in the first half of this year the Swiss economy is taking a breather. Most economic forecasters see this as merely a pause before more rapid growth next year – but some fear it signifies a more durable lack of stamina.

The ascent of the Swiss franc this year, especially against the dollar, has knocked company profits, provoked squeals of pain from industry and reinforced concerns about Switzerland's long-term "de-industrialisation".

Meanwhile, much of the government's "economic revitalisation" programme, launched after voters rejected Swiss membership of the 17-nation European Economic Area in December 1992, is still on the drawing board. Ministers are also struggling with mixed success to mend tattered federal finances.

On the face of it, the economy looks in reasonable shape after emerging from three years of recession, the longest since the war. National output touched bottom in mid-1993 and grew 2.3 per cent over the following 12 months. Investment in private housing and business equipment has bounded ahead, though industrial and commercial building remains depressed.

Exports have been buoyant, boosted by renewed growth in Europe and especially in Germany which alone accounts for a third of Swiss goods sent abroad. Switzerland's habitual balance of payments surplus set a new record last year of SFr27bn or 7.8 per cent of gross domestic product.

Inflation is expected to average under 1 per cent this year, an eight-year low. Registered unemployment, which reached a post-war high in January at over 188,000 – 5.2 per cent of the workforce – has since fallen steadily to below 160,000.

The economic slowdown this autumn has been blamed on the postponement of investment into next year to take advantage of the new value added tax to be introduced in January. Under VAT, businesses will be able to recoup tax on investment goods which they cannot do under the present sales tax.

The majority of forecasters are predicting export- and investment-led economic growth of 2.25-2.5 per cent next year, up from about 1.5 per cent in 1994.

Some, however, such as Mr Hans Kaufmann of Bank Julius Baer in Zurich, believe the pause shows that industry is already being priced out of export and domestic markets by the resurgent Swiss franc. Bank Baer has accordingly slashed its growth forecast for next year from 2.5 per cent to just 1.7 per cent.

Other clouds on the 1995 horizon are the uptick in inflation from the changeover to VAT, which could add 1.5-1.75 per cent to the consumer price index. Inflation is generally expected to average about 2.5 per cent next year, keeping real household incomes and spending subdued. Higher unemployment insurance contributions and a possible rise in mortgage interest rates will also have a dampening effect.

Meanwhile, government spending is being restrained by the need to cut the budget deficit, now running at about 4.5 per cent of GDP for central and local government together. The federal deficit this year is put at just under SFr7bn, after a record SFr7.8bn in 1993.

Heroic attempts to cut spending and raise extra revenues will still leave a projected gap next year of SFr6.5bn and smaller but still substantial deficits in future years.

Although these deficits are not high by European standards, they are still worrying for a government which is used to balancing the books and which must submit key tax decisions to the electorate.

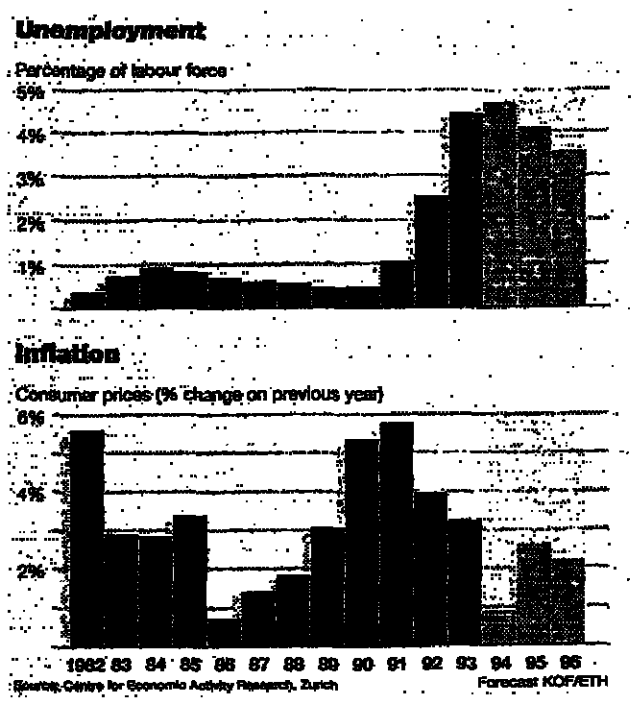
For industry, however, the overriding concern is the strong Swiss franc. Largely reflecting its traditional haven role at times of political and economic uncertainty, it rose *nearly 16 per cent against the* dollar in the first 10 months of 1994, coming close to record highs touched two years ago.

The impact on profit margins has been dire, prompting 80 *small and medium-sized companies* in October to appeal for an easier monetary policy to cap the currency. But the Swiss National Bank, one of Europe's most fiercely independent central banks, says it has no intention of relaxing its tight monetary stance intended to keep inflation low.

"I don't think a relaxation of the monetary reins would be in the interests of the export industry in the medium term," Mr Markus Lusser, SNB president, said in October, arguing that it would risk rekindling inflation which would itself harm competitiveness.

Indeed, many economists, including those of the OECD in Paris, believe the strong franc has paradoxically helped to boost the competitiveness of Swiss industry by forcing companies to cut costs and restructure production.

Since 1991 rapid productivity *growth has led to a fall in unit* labour costs, making Switzerland more cost-competitive against key trading partners. And on most counts Switzerland still ranks among the *world's most competitive economies*, according to the latest report by the International Institute for Management Development and the World Economic Forum.



The downside has been a 6 per cent drop in employment between 1992 and 1994. Unemployment, almost unknown for most of the post-war period, is *set to become a permanent feature* of the Swiss economic landscape though it remains well below that of neighbouring countries.

At the same time, Swiss firms have been creating jobs abroad, not only in mass-production facilities but also, more worryingly, in high-tech activities.

Mr Thomas Gasser, president of the Swiss Machinery Manufacturers' Association, points out that half the research and development spending of Swiss industry is now directed overseas, and that the production jobs that go with it are very unlikely to migrate back to Switzerland.

Switzerland's December 1992 vote on the EEA has also removed much of its attraction for foreigners who might otherwise have found it an easy stepping stone into the European single market. Foreign direct investment in Switzerland, which was running at between SFr3bn and SFr6bn before 1992, fell to just SFr0.1bn in 1993.

Meanwhile, to industry's dismay, the government's "economic revitalisation" programme remains incomplete, with delays affecting all three planks of the programme.

Switzerland's slow-moving legislative procedures mean the Gatt world trade pact will not be ratified until the middle of next year, months after other nations have done so. Bilateral negotiations with the EU on such issues as transport, research and public procurement finally begin this month but are likely to be protracted.

Important measures to stiffen competition and improve efficiency in the domestic market, notably by tackling Switzerland's numerous cartels, have yet to be considered by parliament.

Insurance: a deregulated market faces competition from abroad

Draught through a cosy world

Times are changing in the once-staid and tightly-controlled Swiss insurance market in the wake of increasing deregulation and intensified competition in Europe.

Switzerland's biggest insurers have recently taken aggressive steps to solidify their presence at home and in world markets. Meanwhile, foreign companies have begun to muscle in on the SFr30bn-a-year domestic insurance scene – not easy in a market which, after years of cosy informal cartellisation between Swiss companies, is one of the most concentrated in Europe.

In parallel with the elimination last July of barriers to insurance business within the European Union, tariffs in most life and non-life sectors in Switzerland have now been freed. Fixed tariffs for compulsory third party motor insurance will be scrapped from January 1996.

Though the Swiss market remains profitable – the Swiss are the world's biggest spenders on insurance, laying out a staggering $3,000 a year each on premiums – it no longer provides the secure financial padding of old. Swiss insurers, like their European counterparts, are looking both to cut costs and to focus more selectively on profitable market opportunities rather than premium volume growth for its own sake.

That, in turn, means producing new and better products and selling them effectively. Those best suited to prosper in the new environment, analysts believe, will be the big diversified insurance companies with efficient distribution networks and low costs, along with specialist niche players. For medium-sized companies with undifferentiated products, the prospects look dim.

This was the reasoning behind the surprise announcement last September by Swiss Re, the world's second-ranking reinsurer, to sell off its direct insurance operations to Allianz, the German insurance giant, and Winterthur, the biggest insurer in the Swiss market.

The deal, worth more than SFr5.3bn, will "almost halve" the 48 per cent of Swiss Re's total premium income from primary insurance operations. The company is now free to concentrate on its more volatile but highly profitable core reinsurance business.

Zurich Insurance and Winterthur, Switzerland's largest primary insurers, are seen as well-placed to take advantage of deregulation at home and abroad. Zurich already does three-quarters of its business overseas (a quarter in the US) and Winterthur over half, mostly in Europe.

Foreign companies may have 10 per cent of the home market next year

That has not stopped them slugging it out in Switzerland's newly-liberalised SFr6bn-a-year motor insurance market. That business is about to be transformed, after years in which standard policies – often for five- or 10-year terms – were sold to customers by a network of local agents.

Last spring Winterthur, the market leader, unveiled a new "modular" car insurance policy, the "Strada", allowing customers to choose their cover à la carte. This was quickly trumped by Zurich Insurance which in July launched Zuritel, Switzerland's first cut-priced motor insurance telephone sales operation.

Zurich sees Zuritel as a forerunner for direct selling operations elsewhere in Europe and in other branches of insurance. Some 20-50 per cent of insurance contracts in Europe may be sold in future by telephone or interactive television, the company believes.

Zurich is already having considerable success with direct sales by its newly-acquired British subsidiary, Zurich Municipal, which specialises in local authority insurance. Winterthur was an even earlier pioneer in direct telephone sales through Churchill, now Britain's second largest motor insurer.

Smaller Swiss companies have also shown themselves game for a fight. La Bâloise, Switzerland's fourth largest insurer, announced a deal this summer with the Swiss Touring Club to offer cheap motor insurance to its 1.3m members – half of Switzerland's motorists.

Elsewhere, a significant move was Zurich's acquisition in September of a bank, Zurich-based Rüd, Blass, which specialises in securities trading, broker business and investment consulting. The company plans to use the bank to expand its asset management services, now that liberalisation of life insurance regulations allows insurers to offer investment fund-linked life insurance policies.

Winterthur, meanwhile, has been buttressing its European operations. In January it succeeded at its third attempt to secure a significant slice of the huge and fast-growing German market. A complex deal with Commerzbank gave it control of DBV (Deutsche Beamten-Versicherungskasse), making Winterthur Germany's 10th biggest primary insurer.

Then in September Winterthur strengthened its position in southern Europe, agreeing to buy for SFr355m Swiss Re's direct insurance operations in Italy and Spain plus its stake (*via its Elvia subsidiary*) in the Spanish group La Equitativa.

Though Swiss insurance companies employ nearly twice as many people abroad as at home – 87,935 against 48,319 in *Switzerland at the end of last* year – the domestic market has been a Swiss preserve. Foreign companies had a meagre 2 per cent of premium business in 1992. Next year that propor*tion could be over 10 per cent.*

The biggest foreign invader has been Germany's Allianz, Europe's largest insurer. At the start of the year, Allianz owned two small Swiss insurance companies with a combined premium income in 1993 of just SFr270m. But in June Allianz bought a stake of over 30 per cent in the Berner insurance group, a medium-sized company with *1993* premium income of just over SFr1bn and a 5 per cent share of the Swiss non-life market.

And in September it snapped up an even juicier morsel – Swiss Re's Elvia, Switzerland's fifth biggest direct insurer with 9 per cent of the domestic market and premium income of SFr2.6bn last year. Allianz is also buying from Swiss Re the *Vereinte Group (ranked fifth in* Germany with nearly SFr5.9bn in annual premium income) and an *Italian* company, *Lloyd* Adriatico. Elvia and Lloyd Adriatico will be acquired through *Allianz's Italian sub*sidiary, Riunione Adriatica di *Sicurtà* (RAS).

Earlier, Assicurazioni Generali of Italy gained a controlling stake in Fortuna, a small Swiss *company mainly active* in life insurance, and Alte Leipziger of Germany took a 10 per cent stake in Helvetia as part of a co-operation deal.

On the domestic front, too, Switzerland's medium-sized companies are increasingly turning to partnerships to help them compete effectively. Helvetia and Patria have strengthened their co-operation over the past year, as have Swiss Life and La Mobilière, both mutual companies and respective Swiss market leaders in life and non-life insurance.

Frances Williams

In private banking, the country is undisputed world leader

Fund managers stay healthy

If there were any doubts about the importance of private banking to the Swiss financial centre, they have been dispelled this year.

At a time when profits from securities trading have been depressed by unexpected market turns, when new issue activity has been minimal, when margins on lending remain under heavy pressure, it is once again the commissions and fees from fund management – mainly for wealthy private clients – that are keeping many Swiss banks healthy.

Take Swiss Bank Corporation, for example. Its pretax profits slid 45 per cent in the first half of this year, but commission income was up 11 per cent to SFr1.34bn. At Union Bank of Switzerland, it was the same story, with pretax profit off 28.6 per cent to SFr1.97bn but commission income up 10.8 per cent to SFr2.14bn.

Although the big three universal banks rank among the world's largest portfolio managers, private banking represents only roughly a third of their activities. For many other Swiss banks, and virtually all of the foreign bank outlets except the Japanese in the country, it is vital.

For example, at Vontobel, the Zurich family-controlled bank, 55 per cent of consolidated operating income came from commissions last year, and most of the rest of earnings from lending and trading were generated from the private banking business.

Switzerland remains the undisputed world leader in the international private banking sector. Mr Bruno Gehrig, professor at the Swiss Institute for Banking and Finance at St Gallen, has recently revised upward his estimate of the total volume of funds held under management in the country to about SFr3,000bn.

Bankers generally agree this represents about 40 per cent of all funds held by investors outside their home countries.

In the past few years, leading banks from many countries have looked increasingly covetously on the international private banking business, and many have either moved into it or invigorated existing units.

Mr Raymond Baer, a director of Bank Julius Baer in Zurich, says this is not a surprising trend. "It is true that this is an attractive business in the long term. If you have a stable base, *you can get a stable, more or* less riskless income. And we are all looking for that because the quality of earnings from other banking activities is declining," Mr Baer explains.

Another advantage of this business, and one which is probably to the fore in a year when financial markets have been depressed, is that most clients are unlikely to make a fuss even if they feel that their funds have not been well managed. This is because they do not want to draw the attention of their home tax authority to the existence of their Swiss accounts.

At first glance, the influx of non-Swiss banks to international private banking might *appear to be a threat to Swit*zerland's domination. In fact, however, such is the reputation of the country in this sector that most of the newcomers feel the need to have an outlet there.

Mr Walter Haydock, general manager of Goldman Sachs Bank in Geneva, which opened recently, says a base in Switzerland is essential for anyone seriously committed to international private banking.

Such is the country's reputation in private banking that most non-Swiss banks feel the need to have an outlet there

"We like the infrastructure, the tradition and the high quality investing talent," he says. "Clients do not come here just for bank secrecy."

A more interesting question is whether an increase in competition from foreign rivals is a threat to the Swiss private banks.

The Swiss themselves seem fairly relaxed, claiming that there have been periods in the past when foreign banks became interested in private banking, but soon retreated.

Banks that are not prepared to wait at least seven years for success should not even start, Mr Baer advises. "How many who enter this business are really willing to do that?" he asks.

Other Swiss private bankers argue that the increased foreign presence in Switzerland is *an entirely positive phenomenon*, apart from the pressure it puts on personnel costs.

"The day they are no longer interested in Switzerland I would be worried," says Mr Thierry Lombard, a managing partner of Lombard, Odier in Geneva. Foreign banks bring new ideas and prevent the Swiss from becoming insular, he says.

Mr Jacques de Saussure, a managing partner of Pictet in Geneva, adds that the foreign banks introduce new clients to the Swiss market. "Gradually, these people may become clients of ours, too."

For all its present attractions as a private banking centre, Switzerland's future in this sector is not altogether secure.

The banking community has been totally supportive of efforts to put into place a series of measures in recent years to discourage and prosecute money laundering and funds with criminal connections.

However, the country's bank secrecy law, which is a main attraction for foreign investors, has inevitably been weakened in the process. The Swiss will still not co-operate with investigations by foreign authorities into cases of tax evasion. This is because tax evasion is a civil *offence in Switzerland, but not* a criminal offence. However, they will now co-operate in cases of tax fraud.

Also, a few months ago, Mrs Carla del Ponte, the Swiss federal prosecutor, passed on a request to the country's banks on behalf of the Italian authorities for information on the accounts of a number of Italian nationals suspected of involvement in drug money laundering.

Swiss bankers balked at this request, saying it was too general and made at too early a stage in the investigations. Normally, legal assistance is provided only in cases where individuals have been duly charged with a criminal offence.

"If this is allowed, then anyone can ask for anything," one Swiss banker said following the request. The Swiss Bankers' Association has appealed to the federal cabinet to block it.

In the longer term, the Swiss may also have to face pressure from the European Union to desist from harbouring its tax evaders. As the average age of EU citizens advances, tax revenues of member countries are going to be squeezed anyway, so they will become more resentful of an aloof neighbour that seems to profit from the stresses that they suffer.

Ian Rodger

Ian Rodger profiles Pictet, undisputed leader of its tribe

Secretive bank lifts veil

Swiss banks are notoriously secretive, the country's 18 private banks especially so.

These firms, with exotic names such as Mourgue d'Algue or Landolt Lonfat, are in fact private partnerships and operate under a special Swiss law which enables them to keep information about virtually every facet of their business to themselves.

No balance sheets or income statements ever emerge from these banks, and the partners – whose liability for their firm's problems is unlimited – rarely talk in anything but the most general terms about their business.

They are, of course, supervised by the Swiss Federal Banking Commission. That, plus a long tradition of competence, has tended to satisfy their core customer base, the world's so-called high net worth individuals.

Undisputed leader of this tribe is Pictet & Cie of Geneva, with a staff of 900 and offices in Zurich, London, Tokyo, Hong Kong, Montreal, Nassau and Luxembourg.

Pictet has about $30bn in funds under management, ranking it the largest fund manager in Switzerland after the three big universal banks. It also claims to act as global custodian for $45bn, which includes most of the funds under management.

Until recently, Pictet, which was founded in 1805, has been among the most secretive of the private banks, but now that its business is becoming increasingly international, it has begun to lift the veil on its activities and strategies.

The firm, with assets of over SFr2bn, is owned, directed and managed by its seven partners (an eighth is due to be appointed). Not all have connections to the Pictet family. Deliberately, the age range is wide, from early 30s to early 60s. "If you have seven of the same age, they will be rivals," says Mr Jacques de Saussure, one of them.

Shares in the partnership are sold at par to new partners and bought back at par when they retire. Young partners are awarded extra dollops of the firm's profits to help them build up their share stakes.

The partners meet every working morning to review problems large and small. Mr de Saussure says important decisions are made by friendly consensus. "It is very lonely to be a chief executive in a company; when we have a tough problem, we are all in it together."

Pictet's main policies, similar to those in other Swiss private banks, are to eschew diversification, debt, trading for the firm's account and acquisitions. Sometimes, this makes it look over-cautious, but this year when many other banks have taken a beating on own trading, Pictet is purring.

Highly qualified young people are sought – fluency in three languages is a prerequisite – and trained to be team players. "We do not want any stars or gurus," says Mr Charles Pictet, another partner. The firm likes to control every aspect of the process of investing client funds, from research to custody.

With these cautious policies, change cannot happen quickly. Until the early 1960s, Pictet was active only in private banking and mainly for European clients seeking to avoid taxes in their home countries. It then set out to broaden its base, developing from scratch an institutional fund management business and searching wider for private clients.

Pictet's Geneva lobby is graced by this vintage car, symbolising all one expects of Swiss banking

It has taken a generation to achieve these goals. From its London base, Pictet is now recognised by US institutions for its expertise in emerging markets and on small capital stocks in Europe. The London office manages some $3.5bn in funds. The firm also has a big institutional business in Switzerland and feels well placed to offer its services in neighbouring European countries if and when their pension schemes become capitalised.

Mr Pictet says the bank's private clients come from more than 60 countries today, compared with only eight 30 years ago. Services are offered in 12 languages.

More recently, the firm has polished up its Swiss equity brokerage and global custody departments to be internationally competitive. One impact of this broadening of activities has been to reduce substantially the firm's dependence on private banking for tax-evading Europeans. As many analysts foresee growing pressures on Switzerland from its neighbours to give up tax evaders, the move appears sensible.

Mr de Saussure says only that the partners are pleased with the broadening because it has opened up much greater opportunities for growth. "The pie is growing, the portion of the pie that is going into asset management is growing even faster. We can take a bigger market share and we have a strong income with which to finance our growth," he says.

Progress in electronics on the stock exchange

The real time breakthrough

Next June, the Swiss stock market goes electronic.

Nothing particularly exciting about that, one might say. Stock exchanges around the world have been doing that since the late 1960s when programmers at the Toronto Stock Exchange discovered a way of making a computer behave like an auctioneer.

The Swiss, it would seem, are slow as usual in adopting useful innovations.

That is true, but it is not the whole story. The Swiss have also achieved a significant technical and practical advance to the design and operation of electronic exchanges.

The Swiss exchange will be the first that carries out trading, settlement and clearing in real time. This is no mean feat, as those in London involved with the Taurus project, abandoned two years ago because of the technical difficulties of integrating trading and settlement, would attest.

Its importance, apart from cost savings and reduction of the possibility for errors, is that it removes the risk that a party to a transaction can suffer significant losses because of delays in settlement. It also eliminates the risk that one of the parties will default during the settlement period.

The Swiss hope that this feature alone will encourage traders to bring back some of the volume in Swiss securities that has been carried over to other exchanges, especially London's SEAQ International.

The other big benefit for traders that should come from the electronic exchange is liquidity. At the moment, domestic trading is spread among three exchanges in Zurich, Geneva and Basle. With improved liquidity, spreads should narrow, providing better prices.

Mr Bernhard Sauer, project director, says there is already a double-digit queue of foreign banks, led by Deutsche Bank of Germany, wanting to join the new exchange. The directors decided last year not to accept any new members until after the system was up and running.

Goldman Sachs of the US, the last bank to get through the door before this freeze came into effect, is eagerly looking forward to the opening. "We think there will be a myriad of opportunities with the electronic exchange," says Mr Walter Haydock, general manager of Goldman Sachs Bank in Zurich. "The Swiss market is fourth largest in Europe."

There is much speculation about how the electronic exchange will affect trading behaviour. The most important change will undoubtedly be a reduction in the influence of certain brokers, particularly those of the three big universal banks and Mr Martin Ebner's BZ Bank, on price movements.

The big three, Union Bank of Switzerland, Credit Suisse and Swiss Bank Corporation, together account for more than half of all trading on the Swiss exchanges today, with BZ Bank accounting for about a fifth.

In times of active markets, traders from other banks inevitably watch and take their lead from the actions of these big players around the rings. This gives the big banks extra power in the market.

By contrast, when they work on the electronic exchange, traders will not necessarily know who is offering or buying shares. The decision to disclose one's identity in a transaction is optional, and the expectation is that most traders will not. "A few may put their names up for macho reasons," Mr Sauer says.

Paradoxically, however, the electronic market will be more transparent than the open outcry rings because dealers will be able to see all the orders concerning a given security at any moment. On very large orders, a trader will not have to reveal the full volume involved, but he will have to insert a symbol indicating he aims to sell more than he has showing.

Mr Ebner, who opposed the conversion to an electronic system, fears that without the atmosphere of a true market, volume on the new exchange will decline and spreads will widen.

It also remains to be seen how much trading will take place off the exchange. Members have agreed that only very large transactions can be executed privately. Also, the big banks will no longer be allowed to practise in-house clearing or delay reporting off exchange deals.

Mr Sauer says he would have preferred to see bankers obliged to put all transactions through the exchange. "But my theory is that if this exchange turns out to be as efficient as we think it will be, then the clients will want to come anyway."

But will it all really happen? Are there still possibilities for hiccups before next June? The designers, a team put together by the Swiss stock exchanges themselves, are very confident that they can bring the system in on time and within its SFr80m budget.

For one thing, the electronic settlement and clearing systems are already in place. The only new element in the system is the exchange itself. For another, the system has been up and running for several months already, and comprehensive training programmes are under way.

Still, they are taking no chances. Last month, they agreed to delay the introduction by 10 weeks to allow member firms more time to develop their own software. And the introduction will be staggered, with foreign equities being the first to go live on June 2, followed over the next few weeks by Swiss shares and bonds.

Soffex futures and options are already traded electronically, and they will be integrated into the new system in 1996, enabling users to do combined trading between underlying securities and derivatives.

The larger economic consequences of the start-up of the new exchange are difficult to assess. All three existing physical exchanges in Zurich, Basle and Geneva will close.

Basle is likely to be hurt the most. Its most active members will simply move to Zurich which is only an hour away. Geneva will lose the big bank traders based in the city, as the big three will concentrate their forces in Zurich. But leading Geneva banks, such as Pictet & Cie, will pull back their Zurich staffs to Geneva.

"It is good for Geneva," says Mr Jacques de Saussure, a Pictet partner. "Under the present system, Geneva was fighting a losing battle against Zurich. Now we will have a more level playing field."

Ian Rodger

The future of regional and cantonal banks

Pressure to consolidate

Switzerland's regional and cantonal banks continue to bear the brunt of the pressure for consolidation in the country's banking industry. Both sectors are now taking on new shapes to try to secure places in an increasingly competitive, liberalised environment.

The regional and cantonal banks (the latter are owned and guaranteed by cantonal governments) have long played a role in the country's economic life that goes beyond their size.

At the end of 1993, the cantonal banks accounted for just over a fifth of all banks' total assets, the regional banks 6.8 per cent. But together, they provided more mortgage loans than the big universal banks that accounted for half of the industry's total assets.

They are also key lenders to small and medium-sized businesses, bringing a local sensitivity to the needs of entrepreneurs that the larger national institutions sometimes lack.

However, excessive lending by many of these institutions in the easygoing 1980s led to a refinancing squeeze in the early 1990s when the Swiss National Bank pushed up short-term interest rates to over 9 per cent.

The banking fraternity, concerned about the image of the Swiss financial centre, has put in place a rescue net

The collapse of a small regional bank, the Spar-und Leihkasse Thun, in October 1991 roused the Swiss to realise that this squeeze had reached crisis proportions. The number of regional banks tumbled from 185 at the time of the Thun collapse to 138 in February of this year.

In the wake of the Thun affair, the banking fraternity, concerned about the international image of the Swiss financial centre, put in place a rescue net to prevent further fiascoes. All the subsequent departures have been either due to agreed mergers or takeovers by other regional banks or by one of the big universal banks.

However, this trend did not augur well for the future of the regional bank movement. Last February, the sector's leaders tried to stop the rot by proposing a new central organisation. It would aim at improving the competitiveness of member banks by pooling their efforts in both financial and infrastructure services.

Even more important, a central surveillance body would root out the problem cases, providing the public with an assurance of the soundness of the member banks.

The plan was widely welcomed, but even as members were being canvassed, more were being gobbled up. By the time RBA Holding, the main central body, was formed in September, only 98 banks with combined assets of SFr45bn were willing and able to participate.

A few weeks later, RBA-Finanz, the surveillance body, was set up and has been examining problem cases. By the end of the year, the old Union of Regional Banks will be dissolved. Of those not joining the new RBA group, a few believe they can carry on alone, but others are likely to disappear in the near future.

The next steps are the creation of central financial and infrastructure service organisations, which will enable the organisation to be up and running at the beginning of next year.

Among cantonal banks, the same trends can be seen. The Berner Kantonalbank has been the sector's biggest disaster case, having made large loans to fugitive bankrupt financier Werner K. Rey in the 1980s. The cantonal government had to inject new capital last year to prevent the bank from collapsing.

This year, the Solothurner Kantonalbank has been in difficulty, and for the first time, a private sector bank, Swiss Bank Corporation, has made a bid to rescue it. The cantonal government and parliament have approved the sale, recognising that it would cost SFr1.2bn to restructure it. In the usual Swiss way, the people of Solothurn were to vote on the SBC bid on December 4.

Other cantonal governments, notably that of Zurich, are beginning to wonder if there is still any need for them to back a bank, raising the possibility of more privatisations in the near future.

Early this year, the two Geneva cantonal institutions, Banque hypothécaire du canton de Genève and Caisse d'épargne de la République et canton de Genève, merged, creating an institution with total assets of SFr14.7bn as at the end of 1993.

In the canton of Vaud, Banque Cantonale Vaudoise and Crédit Foncier Vaudois agreed in October to merge next year, creating Switzerland's fifth largest bank with total assets of some SFr30bn and strengthening the position of Lausanne as a regional financial centre.

Like the regional banks, the cantonal banks are trying to cut costs and improve services through pooling of resources. Up to now, there have been various ad hoc groupings for various purposes, but analysts expect two constellations gradually to clarify.

One, for German-speaking Switzerland, will be built around the huge Zürcher Kantonalbank, which had total assets of SFr52.5bn at the end of 1993, and the other around the Banque Cantonale Vaudoise.

Ian Rodger

FINANCIAL TIMES
COMPANIES & MARKETS

Tuesday December 6 1994

IN BRIEF

Kidder Peabody pulls out of Japan

Tokyo's becalmed financial markets suffered a further setback yesterday when Kidder Peabody, the US securities company, announced that it was liquidating its Japanese operations with the loss of up to 100 jobs. Page 21

CSR profits rise 30%
CSR, the Australian building products, sugar and aluminium group, yesterday announced a 30 per cent rise in interim after-tax profits to A$225.2m (US$167m) and forecast that full-year figures would show a "substantial improvement over the previous year". Page 21

Tokyo SE to change listing rules
The Tokyo Stock Exchange is set to make its first serious response to the haemorrhage of international financial business from Tokyo. Later this month the TSE will announce sweeping changes to its notoriously prohibitive rules that prevent many foreign companies from listing. The aim is to revitalise the virtually moribund foreign companies section of the exchange. Page 21

Samsung's car designs worry rivals
Samsung yesterday formally applied for government approval to begin passenger car production by 1998 in a move that could prove risky for South Korea's second largest industrial group and the nation's car industry. Page 20

California Energy to acquire rival
California Energy is to buy Magma Power, another Californian power supplier, in an increased bid worth $950m. The agreed deal creates what is claimed to be the world's biggest independent producer of geothermal energy. Page 19

Fall in new issues hits Wall Street fees
The fees Wall Street investment banks earn underwriting stock and junk bond offerings have fallen to all-time lows this year because of the sharp downturn in business activity, according to a New Jersey-based financial information group. Page 19

Pub chain helps S&N advance 28%
Scottish & Newcastle, the UK beer and leisure group, has increased interim pre-tax profits by 28 per cent helped by a strong first-time contribution from the Chef & Brewer pub chain acquired from Grand Metropolitan a year ago. Page 25

Medeva to buy US anaesthetic maker
Medeva, the acquisitive UK drugs group, yesterday announced plans to acquire Inhalon Pharmaceuticals, the US anaesthetic manufacturer, for $54m. Page 24

HunterPrint urges Quebecor approval
HunterPrint Group, the debt-burdened UK printing company, yesterday warned shareholders that failure to back an agreed takeover by Quebecor Printing, North America's second-biggest commercial printer, could force it to appoint receivers. Page 26

National Home Loans returns to profit
National Home Loans, the UK centralised mortgage lender, has recorded annual pre-tax profits of £11.4m ($18.7m). It was the group's first profitable year since 1990. Page 25

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)							
Rises				GTM Entrpse	401.5	+	18.5
Allianz	2497	+	65	SLIC	730	+	15
Daimler Benz	755	+	18.5	**Falls**			
Douglas Hld	426	+	11	Canal Plus	885	-	12
Hochtief	933	+	13	Fonc Lyon	560	-	10
Veba	529	+	14.5	LVMH	857	-	17
Viag	484.5	+	9.5	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Brother Ind	684	+	25
Alum Co Am	83¾	+	1⅛	Furukawa El	600	+	22
Caterpillar	54⅞	+	¾	Honshu	677	+	36
Intl Paper	71⅛	+	¾	Iseki & Co	379	+	18
Figgie Intl	7	+	¾	Tokyo Rope	550	+	19
Gen Motors	38¾	+	¾	**Falls**			
Falls				Koito Mnuf	775	-	25
ICN Pharm	20¾	-	1⅛				
PARIS (FFr)							
Rises							
Accor	588	+	12				

New York prices at 12.30pm.

LONDON (Pence)							
Rises				Virtuality	252	+	13
Acal	300	+	9	Warburg (SG)	677	+	22
BAT Inds	457½	+	9½	Young (H)	69	+	7
Benford	35	+	4	**Falls**			
Hampcoal	31	+	4	Denby	155	-	6
Inchcape	442	+	11	East Mid Elect	751	-	12
Morrison (Wm)	138	+	8	Hunterprint	1¼	-	1⅛
Oriflame	269	+	12	Lilleshall	115	-	8
Scot & Newcastle	503	+	8	Northumber	91	-	9
Tottenham Hotspur	134	+	10				

South Africa to launch $500m bond

By Graham Bowley in London and Mark Suzman in Johannesburg

South Africa is to return to the international capital markets this week with the launch of its first international bond offering since the end of apartheid.

The $500m global offering of five-year bonds is likely to pave the way for a flood of new issues from other South African borrowers in both the public and private sectors. It is being closely watched by major South African companies and institutions as a measure of the acceptability of South African bonds on the global market and of confidence in the economic policies of the new government.

The state-owned electricity utility Eskom and telecommunications company Telkom as well as several private companies are expected to approach the international capital markets over the next few months.

Although South Africa has borrowed on the international markets before, this is the first time it has been able to approach the US market directly.

The bond offering is expected to be launched either today or tomorrow. Goldman Sachs and Swiss Bank Corporation, the banks lead-managing the deal, were last night unable to comment on the pricing of the bonds, but the market expects a price about 170 to 200 basis points (1.7 to 2 percentage points) over US Treasury bonds of the same maturity. This compares with a margin of about 175 basis points available on Greek bonds of a similar maturity. Mexican debt is trading at about 200 basis points over US Treasuries. Both countries have a similar credit rating to South Africa.

Earlier this year, South Africa was awarded an investment grade rating by Moody's, the US credit rating agency. Japan's Nippon Investor Services also gave the country an investment grade rating. However, Standard & Poor's, the other major US rating agency, awarded a sub-investment grade rating, albeit with a positive outlook.

The launch follows the completion yesterday of a series of investment presentations in Asia, Europe and the US by a South African delegation, including Mr Chris Liebenberg, the finance minister; Mr Alec Erwin, his deputy; Mr Chris Stals, governor of the Reserve Bank; and Mr Tito Mboweni, labour minister.

Government bonds, Page 22

Airtours profit soars to £76m

Going Places: Airtours chairman, David Crossland (centre), and managing director, Hugh Collinson, check in with staff at a branch in Holborn, London. Airtours reported higher full-year results. Page 22

Derivative users 'lack adequate controls of risk'

By John Gapper in London

Only a minority of companies and institutions using financial derivatives to hedge risks has adopted the most sophisticated risk management techniques recommended by banks and derivatives traders, a survey has found.

The survey by the Group of Thirty, a Washington-based group of bankers that has been influential in the debate on derivatives, found that derivatives users such as industrial companies still lag behind banks in risk controls.

Only 8 per cent of the 149 "end users" surveyed reported using "value at risk" methods of portfolio valuation, and 42 per cent subjected their derivatives portfolios to "stress tests" to measure their value in volatile markets.

The survey found that derivatives dealers such as banks and investment banks had tightened standards since the G30 issued recommendations 18 months ago. Senior managers of derivatives dealers were better informed about derivatives risks.

The survey follows legal action by companies against Bankers Trust, the US bank, over sales of leveraged interest rate swaps, and is likely to add to debate over whether institutions that buy derivatives are aware of their financial risks.

Despite a G30 recommendation that all users should set up an independent risk management function, only 39 per cent of companies managed market risks of derivatives independently, while 50 per cent managed credit risks independently.

Mr Charles Taylor, executive director of the G30, said that some derivatives users might not need such sophisticated risk management methods because they had relatively small and simple portfolios.

However, Mr Taylor said the G30 had "some ongoing concern" about the relatively low use of "value at risk" methods, the lack of stress testing and "some big gaps" in financial information disclosed by dealers.

Mr Alexander von Ungern-Sternberg, executive vice president of Deutsche Bank, said at a briefing in London that his bank intended to improve disclosure standards by setting out its overall market risk position in its 1994 annual report.

The survey found improvements in dealers' practices. The proportion using stress testing rose from 19 per cent before the G30 recommendations in July 1993 to 54 per cent, with another 39 per cent planning to do so within a year.

There was greater monitoring of derivatives' activities by senior managers of banks. The proportion of dealers whose senior management reviewed controls had risen by 25 percentage points since July 1993 to 99 per cent.

The "value at risk" method of calculating how much of a dealer's capital is at risk from future market movements was used by 43 per cent of dealers, with a further 37 per cent saying they would adopt it within a year.

Ms Gay Evans, chairman of the International Swaps and Derivatives Association, said that she was "very happy" that the survey confirmed anecdotal evidence that dealers were tightening risk management controls.

Derivatives: Practices and Principles; Follow-up Survey of Industry Practice. Group of Thirty, 1990 M Street NW, Suite 450, Washington DC 20036.

Swedish insurer writes down US holding

By Christopher Brown-Humes in Stockholm

Trygg-Hansa, the Swedish insurer, was forced yesterday to confront the full extent of its disastrous foray into the US market, announcing that it planned to write down the value of its investment in Home Holdings by at least SKr2.8bn ($372m). It did not rule out a write-down of its entire SKr3.5bn exposure to Home, its troubled US insurance affiliate which has turned into the company's second big investment fiasco in two years.

The write-down will be made alongside plans to strengthen Home's balance sheet which has been badly weakened by the need to cover its exposure to environmental and professional liability claims dating back many years.

Home wants to raise at least $250m in new equity or debt.

Analysts said Trygg's write-down suggested Home was planning a highly dilutive share issue to new investors, which could reduce Trygg's capital stake in the US group from 64.5 per cent to below 20 per cent.

They said it signalled a clear desire by Trygg to extract itself fully from its involvement in the loss-making US group. Mr Bob Yates, insurance analyst with Fox-Pitt Kelton in London, said the write-down showed the new investors were forcing "very generous terms".

Trygg's investment in Home, first made in 1991, cost it SKr1.4bn in losses in the first nine months. It now faces full-year Home-related losses of more than SKr4bn. In 1992 Trygg also suffered SKr5.5bn in losses from its investment in Sweden's Gota AB, the holding company for Gota Bank.

Trygg's shares, suspended on Friday following press speculation about Home's recapitalisation, fell SKr2 to SKr76 when trading resumed yesterday.

Home has been downgraded by three US rating agencies since it announced a nine-month deficit of $131m last month. It hopes to get a higher rating after it has been recapitalised, facilitating efforts to win new business.

Home, more than twice Trygg's size, had 1993 gross premiums of $2.42bn. Its difficulties this year have been compounded by high leverage, rising US interest rates, intensifying competitive pressures and earthquake and cold weather losses.

Peter Montagnon looks at the challenge posed to traditional bank lending by growing debt markets

Intermediaries find role under threat in Asia

International banks have grown used to regarding Asia as one of the last regions of the world where they can still lend money for a good return. The process of securitisation which has seen their best customers in the US and Europe drift away to the bond markets has been slow to take hold. Now, however, even Asia is starting to catch up with the times.

Thailand's introduction last month of new arrangements for trading domestic bonds and the recent launch by Wharf (Holdings) of a HK$2.3bn (US$297m) floating rate note issue in the Hong Kong market are signs of the way debt markets are growing in importance around the region. The latter broke new ground as the first issue by a commercial borrower eligible for discount by the Hong Kong's Monetary Authority.

According to Mr André Lee of Peregrine Securities, the Hong Kong investment bank, the value of paper outstanding in Asian debt markets outside Japan has doubled to more than US$500bn in the last five years. Mr Lee says it could easily double again in the next five years.

No one pretends that such rapid growth is an immediate threat to bank lending business, but there is now a growing awareness among banks themselves that their business is facing a serious long-term challenge.

"Hongkong Bank and its ilk will find the going a great deal tougher than they have traditionally found it. Looking ahead five years, bank balance sheets will look quite different. Straight debt will be a much smaller component," says Mr John Mulcahy of UBS Securities. Driving the development of bond markets is the need in many countries to mobilise private sector finance for infrastructure development. The requirement to use domestic savings more efficiently is prompting governments to deregulate financial markets and establish alternatives to traditional bank finance.

Mr Prasarn Trairatvorakul, deputy secretary-general of Thailand's Securities and Exchange Commission, says local banks currently earn handsome margins of about 4 per cent on average. Together with finance companies they provide about 80 per cent of the funds needed by business. "From an efficiency point of view we don't wish any institution to have a dominating role."

As competition grows, banks will see a fall in their interest margins, says Mr Graham Catterwell of Crosby Research, "probably not a dramatic fall, but a progressive erosion over time". But margins on lending to smaller companies will remain high and, with affluence increasing, Thai banks will be able to make up lost income by developing retail business.

Some leading banks remain relaxed about the impact of the changes. Mr Tom Dunton, head of corporate banking at Standard Chartered in Hong Kong, says the scope for borrowers to securitise their debt is limited. "There's only a handful of investment grade companies that can do what Wharf did."

But Hongkong and Shanghai Bank admits to the need for change. Mr Paul Selway-Swift, executive director, says it is putting more resources into investment banking precisely because

> The value of paper outstanding in the Asian debt market has doubled in five years

it believes securitisation will take lending business away from banks, a process known to bankers as disintermediation.

"If we want to do the volume of business we think is desirable, we are going to have to be somebody who disintermediates, rather than somebody is disintermediated against," he says.

Stock market analysts worry about balance sheet growth, but in the medium term, says Mr Selway-Swift, borrowers' requirements will become so large – he puts China's infrastructure needs at $300bn between now and the end of the century – that even Hongkong Bank cannot satisfy them with its own balance sheet.

"We are just going to have to take a lot of our clients to the capital markets," he says.

Mr Selway-Swift is relaxed about the impact of this change on his bank's lending business. There are so many fast-growing companies in Asia that new corporate borrowers will emerge for the banks as fast as the established ones move over to the securities markets.

Not surprisingly, Peregrine, which took a strategic decision to strengthen its bond department this year, takes a different view. "We feel the Asian debt market is going to absolutely explode in terms of volumes," says Mr Philip Tose, its chairman.

Asian companies are still often family controlled, but when they are expanding rapidly, they need more new capital than their owners are willing to provide. So they are pushed towards debt markets, rather than dilute their ownership, he says.

None the less, there are some serious obstacles in the way of the development of debt markets and their use to finance infrastructure. One is the fact that a securitised structure is often inappropriate for a project in, say, transport or power, which will take years to generate any cash. Another, more general, difficulty lies in developing secondary market trading.

Bankers regard Thailand, Malaysia and Indonesia as particularly well-placed to develop domestic debt markets because they have fully convertible currencies. Yet all three countries lack liquid government issues which can act as a pricing benchmark. Indeed, says, Mr Mohamad Munir, chairman of Malaysia's Securities Commission, the stock of government bond paper in his country is steadily depleting.

In Indonesia, worries about the authenticity of certificates have slowed secondary market dealing. But Mr Bacelius Ruru, Jakarta's top securities regulator, says this is being tackled by the introduction of book entry trading. Indonesia wants to wean institutional investors away from fixed-time deposits at banks, he says. Like Malaysia it is establishing a domestic credit rating agency to help build confidence in its bond market.

Bankers say the scope for securitisation is large even in countries which do not have fully convertible currencies, witness the flourishing commercial paper market in Taiwan with outstanding issues equivalent to more than $10bn. China's bond market is relatively small but it still offers investors a return much higher than they can receive from bank deposits.

To some extent, the speed at which domestic debt markets grow will also depend on the readiness of governments to open them to foreign investment banks. Even if they are slow to do so, however, most bankers assume that regional debt issuance in US international currencies will continue to grow apace. "Nothing will stop it," says Mr Tose. "The demand for funding is going to be so great."

INTERNATIONAL COMPANIES AND FINANCE

Portugal Telecom raises Es240bn

By Peter Wise in Lisbon

Twenty-five per cent of state-owned Portugal Telecom is to be sold simultaneously in Lisbon, London and New York next May in an equity issue expected to raise about Es240bn ($1.49bn), the company said yesterday.

An offer of American Depositary Receipts is to be made in New York. A second tranche, expected to raise about Es80bn, will be sold in Portugal while a third, divided into separate sections for UK and international investors, is to be sold in London.

A consortium headed by Merrill Lynch, the US investment bank, will lead the global issue.

The other members are Banco Essi, a Portuguese investment bank, Union Bank of Switzerland and S. G. Warburg, the London-based investment bank.

Three separate valuations of Portugal Telecom are to be concluded shortly. The company expects a final value of Es800bn to Es1,000bn. Legislation setting out the terms of the sale is expected to be approved by the government later this month.

Companhia Portuguesa Radio Marconi (CPRM), Portugal's intercontinental telecommunications operator, which is 49 per cent privately owned, is to be merged with Portugal Telecom before next year's equity issue, the company said.

The state's holding in CPRM is to be transferred to Portugal Telecom and CPRM's private shareholders are to be offered an, as yet, undisclosed price for their shares.

They will be able to use this offer as credit to acquire Portugal Telecom shares in May at the initial subscription price, without having to participate in an auction.

This measure appears to rule out government approval for a proposed management buy-out of part of CPRM's operations.

The international operations of CPRM, which has 40 overseas subsidiaries, could be separated from Portugal Telecom in late 1995 or 1996 and partially privatised.

Portugal Telecom was formed from a merger of three state-owned companies in July, partly to gain sufficient size to acquire a place in one of the international telecommunications alliances taking shape. But this will not necessarily involve the acquisition of large holdings in Portugal Telecom.

It said the equity issue would aim for as wide a dispersal of capital as possible.

Limits would be fixed on individual acquisitions and Portugal Telecom's statutes would be "armour plated" to prevent foreign companies gaining control.

Pakhoed buys 66% of Lambert Rivière

By Ronald van de Krol in Amsterdam

Pakhoed, the Dutch oil and chemical storage group, is to buy 66 per cent of Lambert Rivière, a French chemicals distributor. It plans to launch a public offer for the remaining shares in early 1995.

The Dutch company said the Hallier family of France had agreed to sell its 66 per cent stake in the company at FFr470 per share.

Pakhoed's public offer in France, scheduled to take place after the family sale is completed in January, will be made at the same price per share.

If all the shares are tendered, the acquisition will cost Pakhoed about FFr408m ($75m).

Lambert Rivière, with annual turnover of more than FFr1.6bn, is active in chemicals distribution in Italy, Spain and Portugal as well as in France.

The agreement marks Pakhoed's second attempt to acquire the company.

Earlier this year, it tried to take over Lambert Rivière through a joint venture with Univar Corp of the US. After the attempt failed, Pakhoed sold its 49 per cent stake in the joint venture, Univar Europe, back to Univar.

However, Pakhoed retains a 28 per cent stake in Univar itself.

Artemis sells construction operation to Investcorp

By John Ridding in Paris

Artémis, the holding company which controls Pinault-Printemps-Redoute, the French retail group, yesterday announced it had sold Primeco, one of the biggest groups in the US construction equipment rental market, to Investcorp, the international investment bank.

The French group declined to disclose the amount of the transaction, but said the assets of the Texas-based company were valued at about $300m.

Primeco is principally involved in the rental of construction and public works machinery and in trading activities related to these markets.

Artémis, through which Mr François Pinault controls Pinault-Printemps-Redoute, acquired Primeco in the middle of last year. It bought the company from Pinault-Printemps to reduce the debt burden of the retail group. Mr Pinault said at that time that he would sell the US company when conditions were favourable.

The acquisition is the latest in a series of deals by Investcorp, which was established in the early 1980s by founding shareholders from Arab countries.

In October, the Bahrain-based investment bank completed the acquisition of Ebel, a leading Swiss manufacturer of luxury watches and in August it bought Star Market, a leading chain of supermarkets in Boston for $285m.

Other companies and assets controlled by Investcorp include Gucci, the luxury goods company, Saks of Fifth Avenue and Tiffany's of the US.

Artemis declined to indicate how the proceeds from the sale of Primeco would be used.

Ahold lifted by strong sales in third term

By Ronald van de Krol

Ahold, the Dutch-based international supermarket and retail group, said third-quarter net profit rose by nearly 25 per cent to Fl 90.9m ($51.4m), reflecting buoyant growth in the Netherlands, the US and Portugal.

The figures took nine-month net profit to Fl 295.4m, an increase of 20.4 per cent, prompting the company to repeat its earlier forecast that full-year profits would rise considerably, compared with those of 1993.

The third-quarter rise would have been even more pronounced but for the weaker dollar, which meant that Ahold's large sales and profits in the US were translated into guilders at a rate of only Fl 1.75 to the dollar, against Fl 1.87 a year earlier.

If the dollar had not fallen, Ahold's net profit would have shown an additional increase of 3.6 percentage points.

In the US – where Ahold operates six supermarket chains that generate half of total group turnover – operating results were up 26.4 per cent at $40.3m.

The strong rise was due partly to better results from two chains, Finast and Edwards, whose formats have been changed to make their prices more competitive.

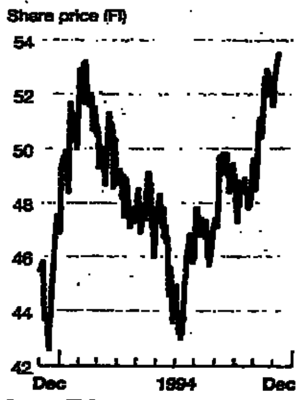
In the Netherlands, where Ahold's Albert Heijn supermarket chain is the market leader, operating results rose 8.9 per cent to Fl 175.9m.

The cost of the chain's new distribution system was again charged against profits in the quarter, holding back the overall rate of increase.

Ahold's relatively new activities in Portugal lifted profits in the rest of Europe 49.1 per cent to Fl 22.3m. Start-up costs continued to keep results in the Czech Republic in the red, but Ahold said results were improved compared with the same period of 1993.

Ahold

Share price (Fl)



Source: FT Graphite

BMW signs motorcycle joint ventures in India with Hero

BMW of Germany and India's Hero group have agreed joint ventures to make and market motorcycles in India, agencies report. Hero is the world's largest bicycle manufacturer.

The aim is for Hero to assemble BMW's single-cylinder motorcycle F650 in India for sale there, the German group said. BMW's F650 model is the third-highest selling motorcycle in Germany, with 4,000 units sold this year.

BMW said the company expected to sign a contract with Hero in 1995, with production beginning soon after. Hero would build about 600 F650 motorcycles a year, BMW said.

"We are convinced that by working together we shall be able to open a new and promising market in India for larger-engined motorcycles," said Mr W. Hasselkus, president of BMW's motorcycle division, after signing a memorandum of understanding with Majestic Auto of the Hero group.

Majestic said there would be two new joint ventures. BMW would hold a majority in a venture to source car components and market finished motorcycles, while Majestic would hold a majority in a new motorcycle maker.

The two companies said they would carry out a feasibility study on the possibilities of their making car products.

India's sales of motor cycles has doubled to 2m from 1m in the 1980s.

Mr Brij Mohan Lall, Hero chairman, said the details of the new joint ventures would be discussed later. "Both of us are committed to financial participation but the minute details are yet to be worked out."

Hero Motors would immediately start production of BMW's 650cc engine motorcycles in India, adding Rs300m ($9.5m) in sales in the first year, Majestic said.

TransAlta takes stake in NZ electric utility

By Bernard Simon in Toronto

TransAlta Energy, the Alberta-based power utility, has paid NZ$120m (US$75.9m) for a 49 per cent stake in Capital Power, the main electric power distributor in Wellington, New Zealand.

The Wellington muncipality retains a 51 per cent interest in Capital Power.

The purchase follows last week's announcement that it was acquiring 20 per cent of EnergyDirect, which serves an area around Wellington.

TransAlta paid NZ$50m for the EnergyDirect stake, which was bought from Enerco New Zealand.

The Canadian company gained a foothold in New Zealand last year by forging a partnership with Mercury Energy, formerly the Auckland Electric Power Board, to design the first independent power station in the country. The 110MW plant is due to be commissioned next July.

In addition to its Canadian operations, TransAlta has an operating interest in a 1,400MW hydroelectric station in Argentina.

Guidi named as new Teleglobe Int'l head

By Robert Gibbens in Montreal

Teleglobe Inc, Canada's sole overseas telecommunications group, has hired Mr Paolo Guidi from Sprint to take over as president and chief executive of Teleglobe International, its primary operating unit, next February.

As president of Sprint International, Mr Guidi helped to forge many of the US telecommunications group's international alliances.

He held senior executive positions with the US telecoms group GTE and the Sprint-Alcatel joint venture.

Teleglobe, 24 per cent owned by BCE, serves foreign telecommunications companies and owns part of the new transatlantic fibre-optic cable.

It will give up its monopoly position in 1997.

Teleglobe recently linked up with TRW of the US to build the US$2bn Odyssey Global Wireless Communications System, which is due to start up in 1998. This is one of six world low-orbit wireless systems planned to handle international voice, fax and other services.

Matsushita to use IBM chip

By William Dawkins in Tokyo

Matsushita, Japan's largest maker of consumer electronic products, yesterday became the fourth Japanese company to adopt International Business Machines' microprocessor technology for multimedia products.

Matsushita has signed a letter of intent with the US computer group jointly to develop multimedia products using IBM's PowerPC chip, a fast 64-bit microprocessor for personal computers.

NEWS IN BRIEF

Skandia income improves 26%

Skandia of Sweden lifted its nine-month gross premium income by 26 per cent to SKr38.7bn ($5.1bn) from SKr30.7bn in the year-ago period, Reuter reports.

"The increase is primarily attributable to Skandia's international and Swedish unit linked operations," it said.

Net asset value, compared with the interim report, is calculated to have increased by about SKr100m to SKr5.5bn, the company added.

Skandia said its non-life and reinsurance sectors continued to develop positively in the third quarter while its life assurance operations showed strong progress.

● Industrie Natuzzi, the fast-growing manufacturer of Italian furniture, is buying 40 per cent of Creazioni Ellelle, a maker of leather and fabric upholstered furniture, for about L3bn ($1.9m), Reuter reports.

The acquisition is expected to close in January and new shares will be issued in connection with a resulting capital increase.

Creazioni Ellelle recorded net sales of about L7bn in 1993 and has about 70 employees.

● Suez, the French financial services group, has regrouped its stake in Belgium's flagship holding company Société Générale de Belgique as part of an internal restructuring, a statement published by the Brussels bourse said, Reuter reports.

The group's total stake now amounts to 61.53 per cent against 60.85 per cent in 1992.

مكرر من الاصل

California Energy to acquire rival

By Tony Jackson in New York

California Energy is to acquire its fellow Californian power supplier, Magma Power, in an increased bid worth $950m.

The agreed deal ends a two-month battle in which Magma rejected California Energy's approaches, and creates what is claimed to be the world's biggest independent producer of geothermal energy.

It also represents an abrupt volte-face for California Energy, which on Friday terminated its earlier offer worth $924m in the face of alleged opposition from Magma shareholders. Dow Chemical, which owns 20 per cent of Magma, said it was "delighted" with the higher offer.

The combined group will have sales of more than $400m, with Magma contributing just over half. Both companies specialise in geothermal energy, whereby electricity is generated by heat from the earth's interior.

Both are active as owners and operators of power plants throughout the US and in the Philippines and Indonesia. South-east Asia is seen as the main growth market for geothermal energy.

California Energy said the combined output of the group would be 545MW of power, with a further 530MW under construction. Magma has started building a plant in the Philippines with 231MW capacity.

The bid values Magma's shares at $39, made up of $28.50 in cash and the rest in California Energy shares. This compares with an original bid in September of $35, subsequently raised to $38.50. Magma had contested both bids, adopting a poison pill shareholder scheme and seeking a court injunction against California Energy acquiring shares under a tender offer.

Mr Paul Pankratz, chairman of Magma, said: "We believe this transaction reflects Magma's inherent strengths and outstanding prospects."

Magma's shares yesterday rose $1⅞ to $37⅞ in early trading, while California Energy's fell $⅜ to $15⅜.

Born-again Magma branches out

The US copper producer has bright prospects, writes Kenneth Gooding

Only a few years ago Magma Copper, the second-largest US producer, was unloved and unwanted – spun-off to fend for itself by an uncaring parent, Newmont Mining. "Our future was uncertain," recalls Mr Burgess Winter, president. "There were those who doubted whether we could survive."

Magma, however,has joined that happy band known as the Lazarus corporations, brought back from the dead by a new management team. And to confirm it is no zombie, it made two landmark moves in the space of a few days.

First, it won the auction for Tintaya, Peru's second-largest copper producer, with a bid worth US$250m. The deal, completed at the end of November, takes Magma outside the US for the first time.

It also announced it had final permission for its $900m Robinson project, and immediately started construction of what is expected to be a world-class, copper-gold mine near Ely, Nevada.

"These two events are of significant strategic importance for Magma," says Mr Winter. His management team set itself a strategic target of having by the end of 1996 some 10bn lbs of recoverable copper in Magma's reserves, and to be producing 750m lbs of copper from its own mines at a net operating cost of less than 50 cents a lb.

With Tintaya and Robinson in the bag, "these targets are definitely achievable," he says. "They also give us a strong start towards our goal for the year 2000: production of 1bn lbs a year."

Magma has come a long way since 1987 when it was spun off by Newmont. At that time, it was the highest-cost copper producer in the US, loaded with debt, and it had only limited ore reserves.

Some of its troubles stemmed from an amazingly generous labour contract involving an ill-conceived bonus scheme that linked payments to copper's market price. The scheme generated bonuses of up to $5.50 an hour, and ate up nearly all Magma's profits – some $55m – between 1987 and 1988m. It had to borrow high-interest money to cope.

Mr Winter was recruited and, with a new management team, he launched a survival strategy that required a complete change of culture. It demanded a new approach to labour relations, increased productivity, cost cuts and a refocusing on the core business of producing copper profitably.

Those core operations were its three mines in Arizona: San Manuel, Pinto Valley and Superior, plus the San Manuel smelter. San Manuel underwent a $250m modernisation, completed in 1989, and a subsequent $100m expansion. It is now said to be the lowest-cost and most environmentally sound smelter in North America.

Costs at the Arizona operations have been substantially reduced: net operating cash costs are down from 78 cents a lb to 58 cents, and are forecast to fall to 50 cents by the end of 1996. Productivity at the mines is up 86 per cent since 1988, and copper production has been lifted from 274m lbs to 600m.

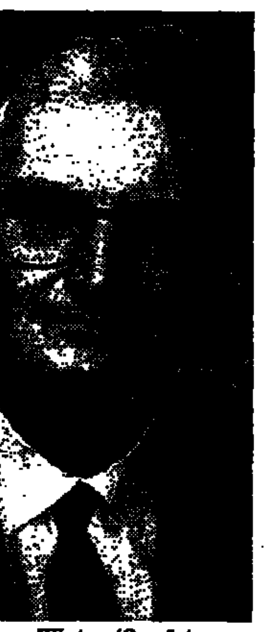
This has been partly achieved through improved employee relations that culminated in 1991 with an historic 15-year labour contract. The agreement allows costs to be strictly controlled, and eliminates the possibility of strikes or lock-outs for seven years.

It also provided the key to the development of a new ore body, called Kalamazoo, at the San Manuel underground mine, where reserves were due to run out in 1997. Kalamazoo will cost $140m and will extend the mine life at least until 2009. It is expected to start up in late 1996, producing 200m lbs of copper a year.

Development of the Robinson ore body in Nevada was supposed to dovetail with the second expansion of the San Manuel smelter, which took its annual capacity to 720m lbs. However, permission problems delayed Robinson. This has not harmed Magma, which has been able to sell all the extra smelting capacity.

Magma is the only US producer to do any significant volume of custom smelting on a regular basis. Mr Winter says it is a good business and one the group intends to nurture.

On October 11, Magma received the final permit and started construction immediately. Production from Robinson is scheduled to begin in the first quarter of 1996 at an annual rate of 135m lbs, with projected net cash operating costs of less than 50 cents a lb. The present mine life is 16 years, but Mr Winter insists "there is excellent exploration potential that could extend the current mine life".



Burgess Winter: 'Our future was uncertain'

Although Magma is not short of cash, and gearing is a modest 36 per cent compared with nearly 60 per cent in 1988, it initiated a copper price protection scheme for 1995, when spending peaks. This guarantees a minimum realised price of 84 cents a lb for most of its projected output.

The programme consists mostly of put options, which allow the company to get some benefits if the price is above 84 cents. Mr Doug Purdom, chief financial officer, says the cost was "modest," and "the price protection scheme makes sure we can get Robinson into operation whatever happens to the copper price".

Magma first showed its interest in moving outside the US when it bid for 51 per cent of the El Abra copper mine in Chile, in partnership with Broken Hill Proprietary of Australia. However, their bid of $240m was well below the $330m eventually paid by US rival Cyprus Amax.

Magma bid $218m for Tintaya at an auction in Peru, where the government is privatising many of its mining assets. This was only $4m more than the next closest bidder, Metall Mining of Canada, and, to Mr Winter's delight, only $27m more than RTZ of the UK, which has a reputation for driving hard bargains.

The total cost of acquiring Tintaya will be $250m, as Magma must also provide $55m of Peruvian debt at face value (but the discounted cost of this debt is $30m to $35m.)

Tintaya, located at an altitude of 4,100 metres in the mountains near Yauri in southern Peru, has been in operation since 1985 and will generate cashflow for Magma from the outset. At present, it produces 111m lbs of copper a year at a net cash operating cost of 60 cents a lb. By increasing the output to 135m lbs, and introducing new equipment to replace Russian trucks, productivity should improve and Magma expects to cut costs to 55 cents.

Magma has guaranteed it will spend $85m to improve Tintaya, and it should have no difficulty fulfilling this promise, particularly if a scheme to produce copper by the so-called solvent-extraction, electro-winning process, proves viable.

Tintaya has reported losses every year since it started up, but Mr Purdom blames this on the debt that the government has burdened it with. In 1993, and so far in 1994, the mine has generated a big flow of cash. Nevertheless, Magma hopes to raise about $100m of debt in Peru some time next year to reduce its equity risk. "Also, we need a bit more cash than we can generate from cashflow for things we want to do," he says.

Mr Winter says Magma will work hard on improving productivity at the mine, and that will mean sacking some of the present 780 employees. However, he insists efficiency is low mainly because of the calibre of the mining equipment.

Meanwhile, says Mr Winter, Magma is still looking for longer-term projects in Mexico and Chile, as well as Peru.

Walt Disney expands in video games

By Alice Rawsthorn

Walt Disney, the US entertainment group, yesterday joined other film studios diversifying into video and computer games by launching an interactive entertainment division.

Mr Michael Eisner, chairman and chief executive, announced the creation of the division, which will co-ordinate Disney's activities in the games and educational software markets at its headquarters in Burbank, California.

Disney has in the past licensed the rights to develop video games from its cartoon and film characters to other companies.

However, it recently devised the successful *Aladdin* and *The Lion King* games in conjunction with Virgin Interactive Entertainment, part of the Viacom group. Last month it launched two CD-ROM products: the Aladdin Activity Center and Disney's Animated StoryBook.

The group is now expanding its Disney Software subsidiary into an interactive division to accelerate its move into games and educational software.

New-issue downturn hits Wall St underwriting fees

By Patrick Harverson in New York

The fees Wall Street investment banks earn underwriting stock and junk bond offerings have fallen to all-time lows this year because of the sharp downturn in business activity, according to a report by Securities Data, the New Jersey-based financial information group.

Although fees have fallen in all categories, the record lows for initial public offerings (IPOs) of stock and junk bonds are especially worrying because underwriting these types of issues is traditionally among the highest-paying business on Wall Street. Consequently, investment banks are hit twice: the volume of underwriting business is falling, and the fees they earn on that business are also falling.

Securities Data says that IPO fees – traditionally the highest because the risk firms take on when selling the stock of newly-floated companies is greater than in other areas of underwriting – have fallen 7 per cent in the last year.

Today, firms are charging 6.7 per cent of the principal amount of each issue, compared with 7.2 per cent a year ago. For example, if an underwriter sells $100m of stock in an IPO, the firm will earn $670,000 for its efforts rather than $720,000.

Mr Jeff Rainess, an analyst at Securities Data, says: "Rising short-term rates are killing the new issuance market, and Wall Street firms are scrambling to get business."

In the junk bond market – which, like IPOs, has contracted this year because of rising US interest rates – fees have fallen 19 per cent, also to a record low. Junk bond issues are now charged at 2.1 per cent of principal, compared with 2.6 per cent last year and a high of 4.5 per cent in early 1991.

The biggest decline in underwriting fees, however, has been in the investment-grade debt category, where the volume of debt issued has plunged 30 per cent this year. Fees on debt issues have dropped 23 per cent, to 0.51 per cent of principal.

Sherritt signs Cuban joint venture

By Robert Gibbens in Montreal

Sherritt, the Canadian resource group, has signed a joint venture agreement with Cuba to mine, refine and market nickel and cobalt from an operation in Moa Bay, on the Caribbean island.

Sherritt will gain long-term feed for its Alberta nickel refinery, while Cuba will benefit from modernisation of the mine and an increase in capacity from 20,000 to 24,000 tonnes yearly, at a cost of US$140m.

Sherritt has for some time refined Cuban nickel and cobalt in Alberta.

"The mine urgently needs refurbishing, and it is now operating at about 13,000 tonnes yearly," said Mr Ian Delaney, Sherritt chairman. He said the Moa Bay reserves were sufficient for 60 years.

Sherritt is also a fertiliser producer, is active in metallurgical research, and operates an upstream oil and gas unit.

INTERNATIONAL COMPANIES AND FINANCE

Big Indian companies expect rise in profits

India's top 25 private sector companies are expected to report net profits rising by an average of 60 per cent in 1994-95, with infrastructure and construction concerns leading the way, Reuter reports from Bombay.

Analysts also forecast net sales to rise by an average 32 per cent for the current year, according to a poll of 16 securities houses conducted by Reuter.

"India's liberalisation programme seems to be bearing fruit," said Mr Asit Mehta of Nucleus Securities. "The tiger is coming out of the cage."

The rise in sales is being triggered by the government's market-oriented reform programme, which has removed many barriers and obstacles to growth and raised manufacturing capacity.

Economists expect India's industrial production in 1994-95 to more than double to 7 to 8 per cent and the economy to grow by around 5.5 per cent. Analysts say a rise in disposable income will lead to higher demand for consumer durables and cars.

Falling interest rates and increased borrowing through domestic and Euro-issues has helped companies cut their financing costs.

Over 50 companies have raised $4.8bn since the first Indian company tapped the overseas markets in mid-1992.

Associated Cement Companies, India's largest cement producer, topped the poll with a projected 177 per cent rise in its net profit to Rs1.68bn ($53.5m) for the year ending March 1995.

Analysts say that a boom in the infrastructure sector and construction activity has led to rapid growth in demand for cement.

Samsung's designs worry its rivals

Korea's other carmakers fear overcapacity, writes John Burton

Samsung yesterday formally applied for government approval to begin passenger car production by 1998 in a move that could prove risky for South Korea's second largest industrial group and the nation's car industry.

Korea's four carmakers have called on the government to reject Samsung's plan, although that appears unlikely.

The chief concern is that Samsung's entry will lead to overcapacity when the Korean car industry is planning to almost triple car production from 2.5m to 6m vehicles annually by the end of the decade, which would make Korea the world's fourth biggest car manufacturer.

Each of Korea's big three car companies – Hyundai, Kia and Daewoo – wants to produce 2m vehicles, while Ssangyong has a modest goal of 150,000 cars. Samsung would add another 500,000 cars by 2002 and hopes to reach 1.5m.

"That is too many cars, given the slowdown in domestic sales, although exports are rising due to the weak Korean currency. The optimum figure for production is probably around 3.5m," said Mr Chung Tae-seung, director of overseas sales for Kia Motors.

The industry benefits from a highly-protected domestic market, although trade barriers are likely to be reduced in the next few years under pressure from the US and the EU.

Carmakers have expressed worries that Samsung will recruit engineers from rivals, causing a bidding war that would lead to higher wages. Moreover, Korea's car components base is under strain by the growth in production.

Samsung's technical alliance with Nissan of Japan may also set back efforts to promote automotive technological independence and increase imports of parts that would deepen Korea's $12bn trade deficit with Japan, according to the Korea Automobile Manufacturers' Association.

Lee Kun-hee: enthusiastic collector of racing cars

Although the government shared many of these doubts and tried to persuade Samsung to drop its plan, it finally approved the $5bn project after Samsung agreed to take measures to avoid disrupting the automotive industry.

Samsung will hire engineers from the US and other foreign countries, while promising to invest in the growth of the domestic car components industry.

It pledged to export 55 per cent of its output of 500,000 vehicles by 2002 to reduce the threat of harming domestic sales of the other carmakers. But rivals remain sceptical about Samsung's measures. "Samsung has a history of breaking its promises. It promised, for example, not to enter the car industry several years ago when it gained government approval for truck production," said a Hyundai Motor official.

Samsung has long sought to enter the car industry to reduce its dependence on electronics by developing its heavy machinery business. It believes car production will deliver synergy benefits for its electronics operations since cars are increasingly relying on electronic components.

Its automotive ambitions reflect the personal interest of Mr Lee Kun-hee, the Samsung chairman, who is an enthusiastic collector of racing cars.

Samsung has argued that its car project would benefit Korea since it would acquire advanced automotive technology from Nissan, which would help the country's export competitiveness.

It said the programme would create jobs for Pusan, the home town and political base of President Kim Young-sam. Pusan has suffered job losses due to the decline of its textile and footwear industry.

Analysts question whether Samsung should be devoting considerable financial resources to car production. This will divert money from its electronics business when it needs to spend vast sums on the development and production of advanced semiconductor chips and other costly programmes to strengthen its position as one of the world's leading electronics companies.

However, Samsung said it would be able to help finance the car company through the sale of subsidiaries in the textile, food and retail industries. There are doubts whether Samsung can achieve success by emphasising car exports.

"No car company has survived by concentrating on exports, at least initially," said Mr Kim Chul-su, the trade and industry minister, in a recent interview before he decided to endorse Samsung's bid.

Samsung may succeed if it forces one or two competitors out of the car industry. Samsung made an apparent attempt last year to take over Kia, although it was blocked by the government.

Some analysts speculate that Ford and Mazda, two of Kia's largest shareholders with a combined 18 per cent stake, may be willing to sell the company to Samsung to help improve the finances of troubled Mazda, in which Ford has a shareholding.

The survival of the loss-making Daewoo and Ssangyong car companies may be threatened by Samsung.

Chinese aircraft group turns to small cars

China's military-run Changhe Aircraft Company has turned over its production facilities to civilian manufacturing to boost its income, *turning* out 16,000 small cars so far this year, Reuter reports from Beijing.

Changhe, located in central Jiangxi province, has also produced two Zhi-8 helicopters this year but it is not clear if these were for civilian or military use, according to a local radio report. The company earned profits of Yn79m ($9.3m) this year.

In the period from January to October this year, Changhe produced Yn580m in output value, up 32 per cent compared with the same period of 1994. China's military plants are turning to civilian products to survive.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 05.12.94: Pool purchase price £/MWh	Final Prices for Trading on 08.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.14	10.11	10.11
0100	9.85	23.55	25.42
0130	23.94	23.55	25.42
0200	23.94	31.83	33.71
0230	18.00	31.83	33.71
0300	9.29	31.83	33.71
0330	9.26	9.51	11.38
0400	9.14	9.51	11.38
0430	9.14	9.51	11.38
0500	9.13	9.51	11.38
0530	9.05	9.21	9.21
0600	9.05	9.21	9.21
0630	9.09	9.22	9.22
0700	29.63	30.41	32.28
0730	30.83	30.81	32.68
0800	31.11	31.80	33.67
0830	48.45	30.94	32.81
0900	31.69	31.82	33.69
0930	35.77	31.84	33.72
1000	36.87	57.07	58.95
1030	35.87	57.07	58.96
1100	35.82	57.06	58.97
1130	38.09	57.09	58.99
1200	48.16	43.35	45.25
1230	49.05	57.10	59.01
1300	35.88	57.08	58.98
1330	31.71	36.90	38.78
1400	31.62	36.89	38.77
1430	31.55	33.11	35.00
1500	31.60	33.13	35.01
1530	32.68	37.87	39.80
1600	58.87	39.78	42.38
1630	162.64	60.14	67.32
1700	284.58	110.37	125.18
1730	334.45	138.98	163.62
1800	239.74	125.22	137.79
1830	107.69	69.10	74.87
1900	59.41	45.66	48.64
1930	45.69	42.36	44.59
2000	32.61	40.17	42.11
2030	31.44	37.72	39.60
2100	30.87	31.80	33.67
2130	30.82	30.93	32.81
2200	30.81	31.80	33.67
2230	29.63	30.81	32.68
2300	25.61	24.17	26.04
2330	9.29	24.17	26.04
2400	9.14	9.22	9.22

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0800-458788 between 8:30am and 5:15pm Monday to Friday.
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صكذا من الاصل

CSR sees higher profits after 30% rise in first half

By Nikki Tait in Sydney

CSR, the Australian building products, sugar and aluminium group, yesterday announced a 30 per cent increase in after-tax profits to A$225.2m (US$173.2m) for the six months to end-September, and forecast that full-year figures would show a "substantial improvement over the previous year".

CSR combined news of its first-half figures with the announcement of two deals in the Asia-Pacific region.

The first was the purchase for A$71m of a 70 per cent stake in a timber business in China's Hunan province, and the second an A$8m investment in a plasterboard company in Beijing.

CSR said its aim was to invest A$600m in the region by end-1996.

Because much of the investment would be through joint ventures, the underlying asset exposure would be about A$1bn, said Mr Geoffrey Kells, managing director.

The company also said that it would "vigorously defend" a legal claim by Mackay Refined Sugar, alleging that CSR attempted to force its rival out of the refined sugar market by predatory pricing.

The Trade Practices Commission, Australia's competition watchdog, announced last month that it would look into the matter.

CSR has maintained that all its sales were made at above the costs of supplying the sugar concerned.

CSR achieved the profits increase on a 12 per cent rise in sales to A$3.17bn.

Earnings per share rose by 25 per cent to 24.7 cents, and the interim dividend was increased by 17 per cent to 14 cents.

The company said that all divisions reported an improvement in profits, with timber and aluminium posting the strongest gains, of 47 per cent and 35 per cent respectively.

There has been some concern that the slowdown in Australia's housing market would hurt the company's financial performance in the next financial year.

However, CSR stressed that it expected further profits growth in the 1995/96 year.

CSR's shares strengthened, rising 12 cents to A$4.62.

Australian cable TV venture stays intact

By Nikki Tait

Optus Vision, the consortium which was formed to build a broadband cable network across Australia and includes Mr Kerry Packer's Publishing & Broadcasting group and Optus, the telecommunications carrier, said yesterday that it remained intact.

It added that it was holding talks with the Australian government over the latter's stance on cable infrastructure regulation.

The future of the consortium was thrown into doubt when Mr Michael Lee, the federal minister for communications, said he would not allow monopolies in cable infrastructure and would not act to stop geographical duplication of the networks planned by Optus Vision and Telstra.

P&B has already withdrawn from a potential A$318m (US$245m) investment in Optus as a result.

However, Mr Bob Mansfield, head of Optus, said he hoped the government's stance would be clarified by Christmas.

Mr Gerald Levin, chairman of Time Warner, admitted that the US-based company had been lined up to supply programmes to the Optus Vision pay-TV project, and now looked to be without an infrastructure supplier. He added, however, that the chapter was not closed.

Kidder Peabody liquidates Japanese operations

By Gerard Baker in Tokyo

Tokyo's becalmed financial markets suffered a further setback yesterday when Kidder Peabody, the US securities company, announced that it was liquidating its Japanese operations with the loss of up to 100 jobs.

The company said that it was closing its Tokyo and Osaka branches and selling its memberships of the two cities' stock exchanges. The withdrawal follows Kidder's takeover earlier this year by fellow US broker PaineWebber.

PaineWebber is not a member of the Japanese exchanges, and General Electric, Kidder's parent company, had hoped to effect a smooth transfer by selling its memberships to PaineWebber, but it appears that the new owners of Kidder turned down the offer.

"In the end Kidder Peabody and PaineWebber simply had different strategies," said Mr Takao Sakuma, Kidder general manager in Tokyo.

Kidder now hopes to sell its memberships to a third party.

Of the company's approximately 140 employees in Japan, about 40 are expected to be transferred to PaineWebber and the company will attempt to persuade the buyer of its memberships to hire as many as possible, Mr Sakuma said.

"But in the worst case, about 100 people will have to seek employment," he added.

Redundancies on this scale have been rare in Japan, even in the recent recession.

Staff had known since the takeover by PaineWebber two months ago that their future was uncertain, but there was still dismay when they were told yesterday.

"Obviously most people were expecting something like this, but it's a big disappointment to them," said one employee.

Mr Sakuma said that the company's Japanese operations had been profitable in the six months to the end of September.

However, reports of its imminent demise, which began circulating shortly after the takeover, brought business to a near standstill. As a result, the company would probably record a loss for the year for the first time since it opened a Japanese branch in 1983, he said.

The staff transferring to PaineWebber are mainly on the bond-trading side. PaineWebber is understood to be keen to build up its fixed interest business in Tokyo, but not to be interested in equity trading.

Stock trading volumes have been depressed for several years on the TSE and most domestic stockbrokers are operating at below break-even levels. Foreign institutions have fared little better.

The Tokyo Stock Exchange said non-members would be invited to apply directly to Kidder for the purchase of the exchange membership by no later than December 19.

Financial sources indicated yesterday that two companies, the UK brokers Smith New Court and the French company Paribas Capital Markets had expressed interest in TSE membership.

But Kidder is understood to be keen to sell the TSE membership as a package with membership of the Osaka Stock Exchange.

The liquidation is the first of a TSE member company since 1968, and it is the third case of a foreign broker giving up its membership in the past two years.

The UK's County NatWest and the US company Prudential Securities, the two previous cases, cited poor trading conditions as the reason for their departure.

Reforms will focus on luring companies from emerging economies, writes Gerard Baker

Tokyo exchange acts to stem the foreign exodus

The Tokyo Stock Exchange is set to make the first serious response by Japanese authorities to the haemorrhage of international financial business from Tokyo.

Later this month the TSE will announce sweeping changes to its notoriously prohibitive rules that prevent many foreign companies from listing. The aim is to revitalise the virtually moribund foreign companies' section of the exchange.

But the reforms will also mark a shift in strategy by the exchange in its development of Tokyo's role as a capital market. It will target companies from the emerging economies, rather those from Europe and the US which have been deserting the exchange.

The exchange's foreign section has been the most startling casualty of the dearth of equity trading on the stock market in the past few years.

In the 1980s, as listings on international exchanges became fashionable for companies wanting to be seen as "global", big companies flocked to Tokyo to gain direct access to the world's fastest growing pool of capital.

The total number of foreign companies listed on the TSE mushroomed from a handful in the early 1980s to 127 by 1990.

That influx was reflected in the busy trading the shares attracted – on average more than 800,000 changed hands daily in 1989 at the peak of Japan's financial boom. But since then a Tokyo listing has lost its lustre. In the past year names like Eastman Kodak, Scott Paper and British Gas have left the exchange and by next summer the total number of listed foreign companies is expected to be below 90.

Most fugitives have cited the lack of activity in their shares. Trading volume has fallen from an average of about 2m shares a day in 1989, to fewer than 180,000 so far this year. Most days many of the listed companies report no trades at all.

With no immediate prospects of a recovery in the Japanese equity market, the costs of maintaining a listing – up to Y10m ($1m) per year – no longer match the supposed benefits.

But instead of trying to win back the departing big-name foreigners, the TSE's efforts will be concentrated on attracting new companies to replace them.

Although the exchange will not admit it publicly, it is clear that it believes the future for its international section lies in constructing a financial workshop producing capital for companies from emerging economies, and not in providing a boutique for the largest names in global business.

There is growing scepticism in financial circles about the advantages for a large international corporation in having its shares listed on a foreign stock exchange.

"Why should they?" says a senior executive at a foreign bank in Tokyo. "There is absolutely no need for a large European or American company to be listed anywhere other than in London or New York. If a Japanese investor wants to buy British Gas shares, he can do so directly by trading in London."

In an increasingly global market, facilitated by off-hours trading, the much-vaunted advantages of a listing in Tokyo are marginal.

But for new companies in Asia the advantages of a foreign listing are much more obvious. Double-digit growth rates in Asia are spawning thousands of businesses seeking access to capital. Their own national stock markets, although a good starting point, lack the international profile of one of the large exchanges.

What has most alarmed Japanese authorities in the last year is that many of these Asian businesses – including large newly-privatised Chinese entities and south-east Asian manufacturers – have chosen Hong Kong or New York.

The main reason is that most of them are excluded by Tokyo's listing requirements – which include a ruling that requires companies to have assets of at least Y200bn, and profits no lower than Y20bn for three years.

The rule changes to be approved this month will remove most of those barriers. The TSE's aim is to become Asia's main stock market.

"These reforms can pave the way for at least 200 east Asian companies to join the exchange in the next few years," said Mr Mitsuhide Yamaguchi, president of the TSE, last month.

There are doubts whether the strategy will work. International brokers in Tokyo point out that company decisions about where to list are made mainly on the type of investor it wants to attract – and they may not necessarily favour Japan.

But the TSE's moves are widely welcomed.

"Any measures that improve access to Japan's financial markets in this more difficult trading environment are to be loudly applauded," says Mr Peter Fenichel, president of BZW Securities in Tokyo.

The proof of the new openness will be in the number of Asian companies that now turn to Tokyo. But that is not entirely within the TSE's control.

The bulk of the regulations that have stifled business come from the ministry of finance – a tax on equity-trading is perhaps the most prohibitive. Unless the ministry makes more efforts to liberalise the market, the success of the TSE's reforms will be limited.

Tokyo Stock Exchange

Year	Foreign companies listed on TSE	Shares traded	Value (Y000)	Average daily volume	Value (Y000)
1991	125	150,958,975	520,571,622	613,851	2,116,144
1992	119	86,239,391	157,011,486	349,147	635,674
1993	110	59,581,651	103,517,369	886,571	420,802
1994*	97	36,747,983	83,422,732	178,388	308,841

*To October

Source: Tokyo Stock Exchange

Setback at Barito Pacific

By Manuela Saragosa in Jakarta

Barito Pacific, the world's largest tropical hardwood plywood producer, said its net profit in the nine months to September 30 fell 35 per cent from a year earlier following a slump in world plywood prices. The Indonesian company's earnings were also hit by a delay in the renewal of its timber concession licences.

Net income fell to Rp142.3bn ($45m) from Rp220.1bn. Sales dropped to Rp696.6bn from Rp778 bn.

Income from operations dipped to Rp95.2bn from Rp276.4bn mainly because of a two-month delay in the renewal of licences for its concessions, forcing the timber giant to buy timber from other logging companies.

Higher log transportation costs were also to blame for increased operating expenses, which climbed to Rp98bn from Rp72.7bn.

In June this year, Indonesia's ministry of forestry took over 49 per cent of the shares in two concessions supplying Barito Pacific as punishment for what it said was irresponsible forest management.

The move was followed by pledges from the forestry minister, Mr Djamaldun Suryohadikusomo, to crack down on logging offenders.

INTERNATIONAL CAPITAL MARKETS

US Treasury prices fall from Friday's highs

By Lisa Bransten in New York and Conner Middelmann in London

US Treasury prices fell from Friday's highs yesterday morning after stronger than expected figures on new home sales were announced.

By midday, the benchmark 30-year government bond was down ⅜ at 94⅞, yielding 7.936 per cent. At the short end of the market, the two-year note was down ⅛ at 99⅛, yielding 7.542 per cent.

Data released by the Commerce Department showed sales of new single-family houses increased by 1.3 per cent in October, whereas economists had expected a slight decrease. A report on car sales was due out later in the afternoon.

However, in spite of the strong economic data, most analysts attributed yesterday's modest declines to a slight correction from Friday's highs rather than to a reversal of the more bullish tone the market has adopted of late. On Friday, the long bond price was up more than a point and the yield fell back below 8 per cent.

Many economists now believe the market has at last accepted the Federal Reserve's promises to take a tough stand against inflation. One sign of this is the steadily flattening yield curve, which is an indication that the market expects an economic slowdown.

The difference between the yield on the two-year bond and the 30-year bond held below 50 basis points yesterday morning, down from 120 points in October and 210 points this time last year.

■ While long-dated government bonds in many European markets drifted sideways in calm trading, the shorter-dated sectors of their yield curves – notably in the UK and Germany – remained under pressure amid continued talk of monetary tightening.

GOVERNMENT BONDS

■ In the UK, the short end of the yield curve was depressed by jitters ahead of today's parliamentary vote on raising value-added tax on domestic fuel.

"Some people are worried that if the government loses the VAT vote, the lack of fiscal tightening will have to be compensated by monetary tightening," said Mr Adrian James of NatWest Markets.

The proximity of tomorrow's monetary meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England, exacerbated fears of an imminent base rate rise, although many dealers do not expect another move until early next year.

At the longer end, prices softened ahead of tomorrow's auction of £2bn of 8.5 per cent gilts due 2005. Dealers reported little investor demand for the issue. "The market will probably have to cheapen up a bit more to generate any client interest," said one.

The March long gilt futures contract eased by 9/32 to 101 21/32 and the March short-sterling future fell 0.16 to 92.63.

■ German bonds closed lower in a session dominated by roll-over activity in the Bund future ahead of the December contract's expiry.

The short end was depressed by renewed talk that the interest rate easing cycle has ended, and by forecasts from Salomon Brothers that Germany will start tightening in the first half of 1995.

Most dealers are not expecting any monetary policy changes at Thursday's Bundesbank council meeting, especially after council member Mr Gerd Haeusler yesterday said that the central bank would stick to fixed-rate securities repurchase agreements in the near term.

The March Bund future on Liffe ended around 91.20, down 0.27 on the day. The March three-month euromark future fell by 0.10 to 94.56.

■ French bonds continued their recent out-performance of the German market, with their 10-year yield spread over Bunds narrowing to 49 basis points from 52 on Friday. However, some observers said that trend could be reversed soon.

"We believe that, given the political risk premium associated with French assets, this spread-tightening has been overdone and we look for this to widen over the next few weeks to around 75 basis points," said analysts at Yamaichi International.

Sweden jumbo $5bn deal gets good response

By Martin Brice

The response to the jumbo loan for Sweden, which is now in general syndication via Citibank and J. P. Morgan, is said to be "very encouraging". Underwriting for the $5bn loan

SYNDICATED LOANS

was finalised last week and syndication is likely to be finalised before Christmas, with signing in early January.

● A £520m loan to build a 750MW power station on Humberside has been oversubscribed almost 100 per cent.

This is the first large financing for a UK power project for 2¼ years, since power stations at Barking in London, Medway in Kent, Keadby in Yorkshire, and Derwent in the Midlands were announced.

Some 40 banks offered a total of more than £1bn for the Humber Power loan, arranged by NatWest Markets and UBS. They are mainly European, with strong support from Japan, with underwriting by ABN Amro, CIBC, NatWest Markets and UBS.

Syndication closed last week for the loan, which runs for 17¼ years, and is priced at 125 basis points over the London interbank offered rate (Libor) during construction. After construction, pricing changes to 115 basis points over Libor, rising to 135 basis points over.

● Citibank and Toronto-Dominion Bank are arranging and underwriting a £400m revolving facility for BSkyB, the satellite television group which is to float this week. Trading in the shares is due to start on Thursday, the day the loan is to be launched into general syndication. The loan price varies between 37½ basis points over Libor and 87½ over, depending on the company's financial performance. Proceeds from the share issue and the loan will be used to repay shareholder loans. This will leave BSkyB with £800m of bank debt, and equity with a market capitalisation exceeding £4bn.

● Syndication closed last week on a $900m loan for Instituto de Credito Oficial, a Spanish public law institution which carries out credit transactions for the Spanish government, and is rated Aa2. The four-year loan, arranged by Argentaria, Deutsche Bank and NatWest Markets, has a facility fee of 6¼ basis points and a margin of 6 basis points. Banks offered $1.5bn and allocation has not yet taken place.

● Carrefour, the French supermarket group, has asked J. P. Morgan with co-arranger UBS to syndicate a FFr3bn ($560m), five-year multi-currency loan through a group of banks, most of which already have a relationship with the company. The drawn cost will be between 20 and 25 basis points over Libor.

● Midland and NatWest Markets have launched into syndication a £300m multicurrency loan with a swing-line facility for Arjo Wiggins Appleton, the Anglo-French paper group, with a price of 20 basis points over Libor.

● NatWest Markets is arranging a seven-year, £140m loan for SHV Macro, the Dutch wholesale and retail foods group. The loan is priced at 22¼ basis points over Libor for first five years then 25 over Libor for the last two.

Spring start for Mitsui Trust unit

Mitsui Trust & Banking is to set up a securities subsidiary next spring, Reuter reports from Tokyo.

The trust bank has already submitted an application for setting up such a unit to Japan's finance ministry and is likely to receive approval as early as February. If Mitsui Trust creates such a unit, it would be the fourth Japanese trust bank to do so after Mitsubishi Trust & Banking, Sumitomo Trust & Banking, and Yasuda Trust & Banking.

Last month, DKB Securities, Fuji Securities, Mitsubishi Diamond Securities, Sakura Securities, Sanwa Securities and Sumitomo Capital Securities – respectively subsidiaries of Dai-Ichi Kangyo Bank, Fuji Bank, Mitsubishi Bank, Sakura Bank, Sanwa Bank and Sumitomo Bank – all started operations.

Spain launches DM2.5bn fixed-rate offering

By Graham Bowley

The Kingdom of Spain yesterday launched a DM2.5bn offering of five-year eurobonds, the largest fixed-rate D-Mark issue this year.

The bonds were priced to yield 25 basis points over German bunds of the same maturity and met demand from central banks and investment

INTERNATIONAL BONDS

funds across Europe and in the Far East, said joint lead manager Commerzbank.

Commerzbank said pricing compared favourably with other recent five-year D-Mark issues trading in the market, such as those by the World Bank and Belgium. These are currently trading at around six and five basis points respectively above US Treasuries. Commerzbank reported some switching by investors out of the latter issues into the new Spanish offering.

However, dealers said the bonds were expensive compared with domestic German bonds, which are currently trading at around 35 basis points over bunds.

"With that pricing, it is difficult to see a strong [German] bid for the paper," said one dealer. However, Commerzbank said that it had kept the main part of the offering to place itself and a third of that "is already in firm hands".

Spain last came to the D-Mark sector in February 1993 with a DM4bn 10-year offering.

In the dollar sector, Nordic Investment Bank launched a $250m offering of two-year bonds priced to yield 12¼ basis points over US Treasuries.

Lead manager Nomura said the bonds met the strongest demand from central banks and institutional investors in Asia and Europe. Market sources said the proceeds were swapped.

In the Canadian dollar sector, GECC launched a C$100m offering targeted at retail investors in Switzerland and the Benelux countries.

Wood Gundy, the lead manager, said it had seen significant interest in the short-end of the Canadian dollar sector recently and pricing spreads on existing bonds of a similar credit had narrowed sharply.

The issue was priced to yield 12 basis points over Canadian government bonds. Wood Gundy said significant demand came from investors switching out of longer-dated bonds.

Midland Bank launched a $400m offering of 10-year yankee bonds, in a deal lead-managed by J. P. Morgan.

All eyes in the market today and tomorrow will be on the expected launch by South Africa of its long-awaited $500m global offering of five-year bonds, with a December payment date and expected pricing of 170 to 200 basis points over US Treasuries.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Nordic Investment Bank	250	7.625	99.797R	Jan.1997	0.125R	+12¼(7¼%-96)	Nomura International
STERLING							
Sorer 1(a)‡	94	(a1)	100.00R	May.2021	0.25R	-	Citibank International
D-MARKS							
Kingdom of Spain	2.5bn	7.00	99.20R	Jan.2000	0.25R	+25(7%-99)	Bayerische LB/Commerzbank
ITALIAN LIRE							
San Paolo, London Branch(b)♦	150bn	zero	100.00	Dec.1996	undisct.	-	San Paolo, Turin
CANADIAN DOLLARS							
General Electric Capt.Corp.	100	8.25	99.735R	Jan.1997	0.125R	+12(7¾%-96)	Wood Gundy

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ♦Unlisted. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Expected maturity: Feb.02 and av.life: 4¾ yrs. Callable from Feb.02 at principal amount. Clearup call at 5%. Class B & C notes (10% of transaction) were privately placed. a1) 3-mth Libor +30bp to Feb.02 and +60bp thereafter. b) Redemption proceeds: par + 1.2 x average performance of CAC-40 and DAX. Minimum return 15%. Lock-in feature.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	93.3000	+1.910	10.09	10.34	10.55
Belgium		7.750	10/04	96.8100	-0.020	8.23	8.22	8.46
Canada *		8.500	06/04	84.2000	-0.450	9.02	9.12	9.20
Denmark		7.000	12/04	89.5500	-0.170	8.60	8.60	8.98
France	BTAN	8.000	05/98	102.1900	-0.080	7.27	7.31	7.64
	OAT	7.500	04/05	97.2600	-0.080	7.87	7.93	8.24
Germany Bund		7.500	11/04	101.2700	-0.200	7.31	7.28	7.60
Italy		8.500	08/04	82.3200	+0.020	11.59†	11.66	11.74
Japan	No 119	4.800	06/99	103.3130	-0.125	3.94	3.95	4.06
	No 164	4.100	12/03	96.4690	-0.152	4.66	4.69	4.68
Netherlands		7.250	10/04	96.6000	-0.200	7.45	7.42	7.63
Spain		10.000	02/05	91.1600	-0.070	11.50	11.10	11.29
UK Gilts		8.000	06/99	90-21	-8/32	8.45	8.26	8.51
		6.750	11/04	88-05	-10/32	8.54	8.40	8.65
		9.000	10/08	104-02	-9/32	8.50	8.39	8.62
US Treasury *		7.875	11/04	100-09	+4/32	7.83	7.85	7.99
		7.500	11/24	95-01	+6/32	7.94	7.98	8.12
ECU (French Govt)		8.000	04/04	86.0400	+0.210	8.18	8.33	8.64

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	8½	One month	5.61	Two year	7.58
Broker loan rate	6½	Two month	5.63	Three year	7.67
Fed.funds	5 7/16	Three month	5.88	Five year	7.77
Fed.funds at intervention	-	Six month	6.52	10-year	7.84
		One year	7.08	30-year	7.94

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	113.44	113.38	+0.02	113.72	113.28	123,461	105,749
Mar	112.64	112.58	+0.02	112.92	112.50	23,034	55,758
Jun	111.74	111.66	+0.02	111.94	111.74	127	2,572

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Mar	PUTS Jun
110	-	3.03	2.87	0.08	0.50	-
111	-	2.27	-	0.18	0.73	-
112	1.09	1.65	-	0.44	1.08	-
113	0.50	1.12	-	0.85	-	-
114	0.16	0.70	-	1.56	-	-

Est. vol. total, Calls 22,402 Puts 17,676. Previous day's open int., Calls 143,851 Puts 124,408.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	91.53	91.27	-0.20	91.60	91.17	94666	86206
Mar	90.92	90.68	-0.11	90.95	90.55	82902	121390
Jun	90.04	89.93	-0.11	90.04	90.04	72	227

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	CALLS Jun	PUTS Jan	PUTS Feb	PUTS Mar	PUTS Jun
9050	0.59	0.91	1.12	1.20	0.41	0.73	0.94	1.77
9100	0.34	0.66	0.88	0.99	0.66	0.98	1.18	2.06
9150	0.18	0.46	0.65	0.81	1.00	1.28	1.47	2.36

Est. vol. total, Calls 5071 Puts 4389. Previous day's open int., Calls 140218 Puts 86254

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.20	102.36	0.40	102.38	101.97	13473	11466
Mar	101.10	100.84	-0.06	101.15	100.71	22931	42096

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
10050	1.92	0.96	1.56	1.77
10100	1.65	0.80	1.81	2.09
10150	1.40	0.64	2.06	2.43

Est. vol. total, Calls 428 Puts 473. Previous day's open int., Calls 11123 Puts 9870

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.57	87.37	-0.08	87.60	87.35	16,611	71,178
Mar	86.80	86.63	-0.01	86.81	86.65	595	7,696

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102-28	102-17	-0-09	102-28	102-11	11129	36859
Mar	102-04	101-26	-0-09	102-04	101-21	36137	93721

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Mar	CALLS Jun	PUTS Mar	PUTS Jun
101	2-08	2-31	1-18	2-43
102	1-34	2-03	1-46	3-15
103	1-04	1-42	2-16	3-54

Est. vol. total, Calls 1560 Puts 1594. Previous day's open int., Calls 14692 Puts 27924

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	82.84	83.06	+0.24	83.24	82.76	3,698	6,282

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	99-17	99-18	+0-03	99-19	99-07	65,227	167,392
Mar	98-27	98-29	+0-02	98-31	98-19	584,995	249,208
Jun	98-06	97-31	+0-04	98-15	98-05	1,623	12,146

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	108.55	-	-	108.60	108.53	246	0
Mar	107.86	-	-	107.94	107.83	1695	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Dec 5	Day's change %	Fri Dec 2	Accrued interest	xd adj. ytd		Low coupon yield Dec 5	Dec 2	Yr. ago	Medium coupon yield Dec 5	Dec 2	Yr. ago	High coupon yield Dec 5	Dec 2	Yr. ago
1 Up to 5 years (24)	120.33	-0.14	120.50	2.42	9.63	5 yrs	8.48	8.42	5.68	8.50	8.45	5.95	8.67	8.61	6.07
2 5-15 years (22)	140.78	-0.30	141.20	2.40	11.49	15 yrs	8.39	8.35	6.62	8.52	8.47	6.74	8.75	8.70	6.92
3 Over 15 years (8)	158.65	-0.31	159.14	3.33	10.87	20 yrs	8.34	8.31	6.73	8.52	8.47	6.77	8.65	8.62	6.94
4 Irredeemables (6)	179.23	-0.35	179.87	1.19	13.71	Irred.†	8.40	8.37	6.87						
5 All stocks (60)	136.03	-0.25	136.37	2.58	10.93										

Index-linked							Inflation 5% Dec 5	Dec 2	Yr. ago	Inflation 10% Dec 5	Dec 2	Yr. ago
6 Up to 5 years (2)	187.01	-0.05	187.10	0.89	5.07	Up to 5 yrs	3.97	3.93	2.02	2.78	2.75	1.20
7 Over 5 years (11)	174.09	-0.10	174.26	1.35	4.36	Over 5 yrs	3.67	3.66	3.06	3.68	3.67	2.88
8 All stocks (13)	174.55	-0.09	174.71	1.30	4.41							

Debentures and Loans						5 year yield Dec 5	Dec 2	Yr. ago	15 year yield Dec 5	Dec 2	Yr. ago	25 year yield Dec 5	Dec 2	Yr. ago
9 Debs & Loans (77)	129.31	-0.34	129.83	1.94	10.80	9.49	9.45	7.39	9.43	9.39	7.75	9.38	9.33	7.89

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Dec 5	Dec 2	Dec 1	Nov 30	Nov 29	Yr ago	High*	Low*
Govt. Secs. (UK)	91.89	92.12	92.33	92.06	92.00	105.55	107.04	89.54
Fixed Interest	109.82	109.56	109.38	109.14	109.14	126.49	133.87	106.60

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28
Gilt Edged bargains	100.7	120.8	125.8	144.5	150.1
5-day average	127.4	138.4	141.2	144.1	140.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 5

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Issued	Conv. Price	Bid	Offer	Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Shorts (Lives up to Five Years)						
Treas 13pc 1995	11.91	5.86	[illegible]	[illegible]	[illegible]	[illegible]
Exch 3pc Gas 1990-95	3.04	5.89	[illegible]	[illegible]	[illegible]	[illegible]
10¼pc 1995	10.02	6.52	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12¾pc 1995‡‡	12.00	6.65	[illegible]	[illegible]	[illegible]	[illegible]
14pc 1996	13.02	6.93	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
Funding 3½pc 1999-4	4.75	7.30	[illegible]	[illegible]	[illegible]	[illegible]
Conversion 9½pc 2004	8.98	8.61	[illegible]	[illegible]	[illegible]	[illegible]
Treas 6¾pc 2004‡‡	7.65	8.53	[illegible]	[illegible]	[illegible]	[illegible]
8½pc 2005	8.81	8.51	[illegible]	[illegible]	[illegible]	[illegible]
Conv 9½pc 2005	8.94	8.59	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5	10.24	8.59	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes	Yield (1)	Yield (2)	Price £	+ or -	1994 High	1994 Low
Index-Linked (b)						
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. ‡ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

هكذا من الأصل

هكذا من الاصل

There is only one problem with a car designed by computer. It looks just that; designed by computer: functional, predictable, soulless. That's why we entrusted the design of the GS300 to Giorgetto Giugiaro. The result is perfection down to the smallest detail. Like the LS400, the GS300 is a perfect union of aesthetics with technology. For instance, everything, from the headlights to the door handles, has been designed to create the lowest possible wind resistance. Inside, a choice of leather or velour upholstery, air conditioning and 7 speaker CD player, defies the notion that beauty is only skin deep. Under the bonnet, the GS300's 212 hp (156 kW), 3-litre, 24 valve engine is mounted on its own sub-frame, before it is assembled on the body to absorb the slightest vibration. Its 4-speed automatic transmission adapts to the driver's mood and its independent double wishbone suspension guarantees high speed stability, confident braking and precise cornering. For peace of mind, the GS300 comes equipped with a host of safety measures. Advanced electronic ABS brakes and seat belt pre-tensioners are standard, as are driver and front seat passenger airbags. However, to truly understand what we mean by 'the relentless pursuit of perfection', get behind the wheel of the Lexus GS300. A test drive is worth a thousand words.

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Scandinavian Leisure acquisition helps boost profits to £76m

Airtours expands by 66%

By David Blackwell

The acquisition of Scandinavian Leisure Group last April helped Airtours to boost profits by 66 per cent and sales by almost the same amount. The total dividend is being raised by 36 per cent.

Airtours, which is turning itself into a vertically integrated holiday company, reported pre-tax profits of £75.8m on sales of £971.7m for the year to end September. This compares with a previous £45.5m, struck after a £9m charge for its abortive bid for Owners Abroad Group, on sales of £615.5m.

"We think they are superb results," Mr David Crosland, chairman said, pointing out that the group had delivered uninterrupted growth in profits, earnings and dividends since coming to the stock market in 1987.

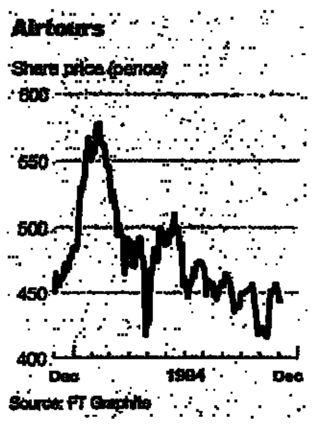
The shares closed yesterday at 442p, down 2p.

After a successful summer season SLG, bought for £80m, contributed £13.7m to pre-tax profits – well ahead of expectations. The acquisition, which also brought in £151.4m of turnover, serves markets using the same destinations as the UK operation.

The group is putting together the offices of the Scandinavian and English tour operations in overseas resorts, reducing the overall number by about half to 50. Mr Crosland said the group would benefit from the increased buying power for transfers and excursions, for which it would have 3.5m coach passengers.

While the tour operating business has a 21 per cent market share, its High Street chain, Going Places, has a market share of 14 per cent. Mr Crosland said he wanted to move the retail chain's market share closer to the tour operating level.

On the downside, the group said that warm weather in the UK in August had cut demand for some holidays, while the emergence of some northern European countries from recession had put upward pressure on hotel bed prices.



Source: FT Graphite

However, winter bookings were almost 27 per cent ahead, and 1995 early summer bookings were 13 per cent ahead. In addition the group has moved into the fly-cruise market, with a 94 per cent take-up for next year already on the first boat.

Fully diluted earnings per share were 44.37p (27.29p). The board is proposing a final dividend of 10.9p (7.88p), taking the total for the year to 12p (8.81p).

● **COMMENT**

The figures were up to best expectations, although flattered by the Scandinavian arm, which made the UK seem a shade disappointing. The group is clever at marketing, and runs its tour operations and retail outlets efficiently. It has grown at a terrific pace and has grasped the right opportunities. Estimated profits this year of just below £90m put it on a prospective multiple of 9. At first sight this looks grudging, especially if you believe the move to vertical integration in the holiday business will raise the cost of entry. However, investors will have at the back of their minds the recurrent upheavals in the industry. At the same time growth rate is likely to slow down.

Exceptional checks NIE at £44.3m

By Michael Smith

A higher than average rise in unit sales as well as cost-cutting helped Northern Ireland Electricity increase interim operating profits 16.5 per cent from £41.7m to £48.6m.

Pre-tax profit growth was 4.5 per cent, from £42.4m to £44.3m, following a £5.9m exceptional charge for restructuring, mainly to pay for voluntary redundancy.

The dividend rises 15 per cent to 3.9p (3.39p) in line with expectations, out of earnings per share after exceptional costs of 21p (20.8p).

In the half-year to September 30, NIE's increased turnover of £209.6m (£206.2m) was helped by a 6.2 per cent growth in industrial unit sales.

The commercial sector increased 4.5 per cent, although domestic growth was less impressive at 1.1 per cent. Taking all three sectors together the weather-corrected increase was 4.6 per cent.

The company also benefited from a 13.4 per cent reduction in employee costs. Some 149 jobs were cut in the half, leaving 2,607. It had set a target of 2,557 for March 1996 but expects to meet that in the current financial year.

Of the company's four main profit centres, supply showed the highest increase, 78.9 per cent to £3.4m, but the retail business showed a £500,000 loss, following a £200,000 profit in the comparable period. Mr Patrick Heren, chief executive, blamed a fall in appliance sales in a highly competitive market.

The company had net cash of £91.6m at the year end, up from £35.2m. Mr David Jefferies, chairman, said it was confident the regulator's review of the interconnector with Scotland would show it provided an economic method of purchasing electricity. "We thought it was the best way forward, even without the £61m grant from the European Union to help build the interconnector," he said.

● **COMMENT**

Had all gone according to the government's plans, NIE would now be a company with considerable gearing. However, a year after privatisation it is treading the well-worn path of privatised utilities, cutting costs ahead of schedule and spending less than expected. As a result the cash pile now stands at £92m, and profits are healthy. Expenditure on the Scottish interconnector will dent the cash but, assuming a full year dividend of 13p, the shares are trading on prospective yield of 4.4 per cent. That is about the same as the England and Wales regional electricity companies and seems about right. NIE faces an earlier regulatory review than the recs, which increases uncertainty, but uniquely it will benefit from the Northern Ireland peace process.

The rising cost of running Kwik Save

By Neil Buckley

Mr Graeme Bowler, chief executive of grocery discounter Kwik Save since July 1993, was paid a total of £586,000 in his first year – 72 per cent more than his predecessor Mr Graeme Seabrook received in his final nine months with the company.

Kwik Save's annual report, published yesterday, showed that it had to pay Mr Bowler a substantial premium to lure him away from his position as managing director of Franklins discount stores in Australia. On an annualised basis, Mr Bowler received about 30 per cent more than his predecessor.

"We paid a lot to get the right man," the company said. "Discounting is a very competitive business, and this is a man we went half-way round the world to get."

Kwik Save added that Mr Bowler, 55, had to be persuaded to leave an attractive position in Australia, and spend what may be the rest of his working life in the UK.

The report shows that Mr Bowler earned a basic £260,000 in the year to August 27, some 45 per cent higher than Mr Seabrook's £179,000 in his final nine months.

His benefits in kind were 53 per cent greater, at £40,000, while his bonus was more than twice as much, at £245,000 compared with Mr Seabrook's £105,000.

His pension contributions were £41,000, against Mr Seabrook's £31,000.

Medeva to pay $54m for anaesthetic maker

By Tim Burt

Medeva, the acquisitive drugs group, yesterday stepped up its expansion strategy by announcing plans to acquire Inhalon Pharmaceuticals, the US anaesthetic manufacturer, for $54m (£34.6m).

Shares in the group rose 4p to 175p after it said the deal, funded from existing cash reserves, would give it access to a market worth about $200m and would make a modest contribution to earnings next year.

The move follows three months of talks with the Pennsylvania-based company, which only received approval for the US food and drug administration earlier this year to manufacture enflurane and isoflurane ,two of the most widely-used inhaled anaesthetics.

It takes the total invested by Medeva in the past four years beyond £300m, and Mr Bill Bogie, chief executive, said the company was well on course to meet its target of doubling its market capitalisation to about £1bn in the medium term.

Although Inhalon has yet to begin full-scale production and make any sales, Mr Bogie rejected suggestions that Medeva may have overpaid for a company which made losses of $2.3m in the year to June 30.

"The potential is enormous. There are only two other major players in the US – Abbot and BOC – so getting into the market is very important for us."

Inhalon's products will be marketed and distributed by International Medication Systems, the US hospital product manufacturer and distributor, which Medeva acquired for $28.6m in 1992.

"By selling Inhalon's products through IMS's specialist hospital salesforce we can achieve significant operating benefits," Mr Bogie added.

Medeva also hopes to establish a niche presence in the anaesthetic market and use Inhalon's technology in overseas markets.

The company is paying an initial $35m for Inhalon with further tranches of $10m and $9m payable in 1995 and 1996 depending on its production performance.

Coal Investments seeks £26.3m through placing and open offer

By Michael Smith

Coal Investments yesterday announced a placing and open offer to raise £26.3m.

It wants the money to increase capital expenditure, provide working capital and increase its holding in Mining (Scotland), the government's preferred bidder for British Coal's Scottish region.

Existing shareholders are being offered the chance to subscribe for about half of the shares – up to 36.6m – being created through an open offer of four new shares for every 13 held. The balance are being placed firm at 76.5p, against yesterday's closing share price of 81p, down 4p.

The issue represents more than 50 per cent of the 60m shares already in existence.

Coal Investments, led by Mr Malcolm Edwards, is increasing its stake in Mining (Scotland) to between 22.8 and 29.6 per cent, paying £8.3m initially. MS is paying £39.4m for British Coal's Scottish region plus about £10m for surplus coal stocks. Of the £53m needed to fund this, £25m will be raised through bank debt and £28m through equity.

CI also announced the conclusion of contracts to supply the English electricity generators with 4.8m tonnes of coal over six years.

It is also in contract talks with British Steel, which it said would enable it to lift output to between 3m and 4m tonnes.

The company is to spend £6m at its Coventry pit to develop a longwall face to fulfil the generator contracts.

Coal Investments said that geological problems at Cwmgwili earlier in the year had prevented budgeted output being achieved; however, a move to a better part of the seam meant budgeted production was now being achieved. A new washery would improve margins, the company added.

● **COMMENT**

The consolation for Coal Investments for RJB Mining taking over such a large part of British Coal is that the electricity generators will want alternative markets. This helps to explain why CI has been able to win 5m tonne contracts with National Power and PowerGen, and there should be more to come. Even so, the company has much to prove, particularly on the production front. The problems at Cwmgwili and the late delivery of machinery at other mines are dismissed as unimportant by Mr Edwards but, in such a young company, they will be not be considered immaterial by all investors. If Coal Investments can meet its targets it could recover from expected losses this year to make profits of £18m next year. The prospective price/earnings ratio, assuming a full tax charge, would be about 6.

SBC left with 45% of new Lloyd's trust

By Ralph Atkins, Insurance Correspondent

Swiss Bank Corporation has been left with a substantial number of shares, which are trading well below issue price, in a new Lloyd's investment company following poor investor interest.

The bank had hoped to raise up to £50m for Matheson Lloyd's Investment Trust, via the issue of 50m ordinary shares at 100p. SBC had agreed to underwrite 25m of the shares.

The bank said yesterday that it had managed to place only about 5m, mainly with continental European investors, leaving it holding about 70 per cent of MLIT's shares.

Subsequently it has sold about 5m shares to Fidelity at about 80p each, according to market estimates. After other disposals, SBC has been left holding about 45 per cent.

The shares yesterday closed at 82p, though the bank argues that does not take account of the value of warrants, entitling shareholders to subscribe for one share at 100p, issued with every five shares.

The deal has left SBC with a paper loss but Mr Michael Kershaw, executive director at the bank, said: "The company should be judged by the quality of its underwriting results and not by its short term share price performance. We are extremely happy with the quality of the capacity we have obtained for 1995."

Overseas side helps Faber Prest rise 32%

By Geoff Dyer

A strong performance from its industrial services division, particularly overseas, helped Faber Prest to announce a 32 per cent increase in pre-tax profits.

The rise in profits at the industrial and distribution services group, from £5.03m to £6.63m for the year ended September 30, was achieved on turnover up 15 per cent at £79.5m (£69.5m).

Underlying growth in turnover on continuing activities was 13 per cent to £74.7m (£66.1m) giving operating profits of £5.78m (£5.35m), an increase of 8 per cent. There were exceptional profits of £595,000, compared with net losses of £42,000.

Expenditure on acquisitions was £5.4m (£500,000) and capital expenditure doubled to £7.4m (£3.5m). The group raised £8.5m in a 1-for-4 rights issue in July.

Mr Roger Feaviour, chief executive, said that this pace of expansion would continue.

Operating profits from industrial services, principally slag recovery and utilisation, increased 31 per cent to £4.33m (£3.31m).

The distribution division, which provides logistics services, increased profits by 5 per cent to £1.84m (£1.75m) on sales of £24.6m (£21.2m).

Earnings per share rose 32 per cent to 43.7p (33.3p). The proposed final dividend is 10p (9p) making a total of 15.5p (14p).

CRT ahead sharply to £1.29m

By Peter Pearse

CRT Group, the training and recruitment group which bought Systems Resources in August, lifted pre-tax profits from a restated £472,000 to £1.29m in the six months to October 31.

The shares eased 2p to 82p.

Operating profits advanced to £1.67m (£1.64m) after a £220,000 contribution from the acquisition. Last year's figure, however, included losses of £635,000 from the discontinued Doctus Consulting Europe, now sold to management. Group turnover grew 30 per cent to £29.2m (£22.4m) including £5.2m from Systems Resources.

In recruitment, turnover rose 90 per cent to £18.5m (£9.75m) and operating profits more than doubled to £964,000 (£467,000). Stripping out the effect of the acquisition, which made a two-month contribution, the rises in turnover and operating profits were 37 and 59 per cent respectively.

In training, turnover grew to £10.5m (£9.46m) but operating profits fell to £1.67m (£1.85m). Explaining the fall, Mr Karl Chapman, group chief executive, cited increased weighting to students completing courses in the second half, development of the Link Training Multimedia Learning Centre programme in schools, and investment in Link and Pitman.

The group's second-half bias would be more pronounced this year, Mr Chapman said, because of the acquisition, the general improvement in the recruitment market and continuing weighting of that market to the second six months.

There was a £300,000 integration and restructuring charge, and Mr Chapman said the total charge would not exceed £650,000 for the year.

Earnings rose to 1.42p (0.56p) per share and the interim dividend is raised to 0.85p (0.75p).

AB Foods buys flour producer

By James Whittington

Associated British Foods, the milling, baking, and sugar group has bought Allinson, the UK's leading producer of stoneground flour, from Booker for £6.7m in cash together with £1.5m in repayment of inter-group loans.

ABF is one of the biggest consumers of stoneground flour in the UK and has been using the Allinson brandname under licence for the past 12 years.

Mr Garry Weston, chairman of ABF, said the purchase will consolidate the group's position in the wholemeal bread market. "We have been spending considerable sums of money promoting and developing the brandname and we wanted the security of owning it," he said.

The disposal of Allinson comes as part of a restructuring at Bookers initiated 12 months ago.

Verity beats the drum with Premier deal

By Christopher Price

Verity Group, manufacturer of Wharfedale and Mission hi-fi speakers, yesterday beat a path towards securing one of Britain's most prestigious drum makers when it made a £1.85m agreed offer for Premier Percussion.

The move caused surprise in the drumming world as Premier was only bought by its management from the Japanese group Yamaha two years ago. Verity said yesterday that Mr Tony Doughty, the Premier chief executive, would receive about £1.4m from the deal and join the Verity board as a non-executive director.

Premier, famous for its name in front of a host of musical stars, including Keith Moon of The Who, the Coldstream Guards and the Joe Loss Band, was founded in 1928 and was family-owned until 1984. As well as its drums, the group also makes other percussion instruments.

Mr Rick Van Horn, managing editor of Modern Drummer magazine, said the group had suffered along with other traditional drum makers from the impact of Japanese manufacturers in the 1980s, culminating in its purchase by Yamaha in 1984. "It's still one of the big names in drumming, particularly in the UK and Europe," he said.

He added that the Premiers' main endorsers – drummers whose equipment and expenses are sponsored by the company – were Rod Morganstein of the Dixie Dregs, Charlie Morgan of the Elton John band, Nicko McBrain of Iron Maiden and Duane Perry of Jethro Tull.

The last audited accounts of the group show operating profits of £415,000 on turnover of £7.7m for the nine months to the end of December, 1993.

Verity is raising £1.28m through a 1-for 12 rights issue of 17m shares at 7.5p to pay for the purchase.

Pillar Prop at £34,000 and makes acquisition

Pillar Property Investments, the investment and development company which joined the stock market in August, announced pre-tax profits of £34,000, the purchase of a shopping centre and a new director, writes Simon London.

The result for the six months to September 30 was struck after charging £2.17m interest on loan stock which was repaid on flotation. Mr Raymond Mould, chairman, said Pillar had moved strongly into profit since then.

The company did not publish comparative half-year figures but in the nine months to the end of March pre-tax profits were £744,000.

Pillar also announced the acquisition of the Fairhill Shopping Centre in Ballymena, Northern Ireland for £11.5m, through its joint venture with SITQ Immobilier, the Canadian investment fund. The joint venture has now spent £62m on shopping centres out of a potential budget of £250m.

Mr Mould added that Pillar was in advanced negotiations for the acquisition of a number of other investment properties.

Mr Nicholas Sheehan will join the board in January following the departure of Mr Robert Maxted, property director, in October. Until March, Mr Sheehan was chief executive of London & Edinburgh Trust, the development company.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Abacus	fin	2.88†	Jan 26	1.12	4	1.12
Acal	int	2.44†	Feb 1	2.25	-	6.75
Airtours	fin	10.9†	Feb 20	8	12	9
Allen	int	2	Jan 27	1.65	-	5.25
Assoc Nursing	int	0.75†	Feb 23	0.5	-	2
Bearing Power	fin	1	Mar 3	0.75	1	0.75
Berisford	fin	0.5	Feb 7	nil	0.5	nil
Crossroads Oil §	fin	0.2	Jan 23	-	-	-
Denby	fin	1.4	Mar 6	-	-	-
Dwyer Estates	fin	0.75	Feb 16	nil	nil	nil
Edinburgh New	fin	0.4	-	-	-	-
Eurodollar	int	1.6	Feb 3	-	-	-
Faber Prest	fin	10†	Jan 20	9	15.5	14
Northamber	int	0.5	Feb 1	-	-	0.8
NI Electricity	int	3.9	Mar 31	3.39	-	11.39
Oriflame	int	4.6	Feb 16	4.3	-	13
Scot & Newcastle	int	6.18	Feb 10	5.99	-	17.25
Tinsley Robor	int	0.333	Jan 31	nil	nil	nil
Young (H)	fin	2.4	Jan 20	1.3	3.6	3.3

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

BAe says GEC breached Panel rules

British Aerospace yesterday argued to the Takeover Panel that GEC, its rival in the bidding war for shipbuilder VSEL, breached Panel rules by circulating a critique of BAe to selected MP's.

The Panel refused to comment yesterday but is understood to feel that lobbying of MPs is permissible under the Takeover Code.

Macallan-Glenlivet

Macallan-Glenlivet has replaced Attwoods as a constituent of the FT-SE Mid 250 Index following Attwood's surrender last Friday to a bid from Browning-Ferris Industries.

EuroDollar ready to raise prices

By Geoff Dyer

EuroDollar, the car rental company which was floated in July, said yesterday that it would try to act as market leader and increase prices in January.

At the same time, it said better economic conditions in the UK were responsible for a 16 per cent rise in pre-tax profits to £8.15m (£7.01m) in the six months to September 30. Turnover rose 15 per cent to £43m.

Mr Ian Mosley, chief executive, said volumes in November were up 30 per cent over last year, but that there would continue to be downward pressure on margins.

Earnings per share rose 16 per cent to 11p (9.5p). The interim dividend covering the period since the listing is 1.6p.

Associated Nursing static at £1.07m

Associated Nursing Services, the USM-quoted nursing homes operator, maintained interim pre-tax profits at £1.07m against £1.05m, despite increased development costs.

Turnover dipped slightly to £8.46m (£9.02m) for the six months to September 30. The nursing homes side raised operating profits by 18 per cent to £2.27m (£1.92m).

Earnings per share dropped to 5.5p (7.2p), while the interim dividend was 0.75p (0.5p).

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Strong first-time contribution from Chef & Brewer pubs chain

Scottish & Newcastle 28% ahead

By Roderick Oram, Consumer Industries Editor

A strong first-time contribution from the Chef & Brewer pubs chain helped Scottish & Newcastle, the beer and leisure group, report a 28 per cent rise in interim pre-tax profits from £114m to £145m.

"We've had great success in integrating Chef & Brewer," said Mr Brian Stewart, S&N's chief executive. The group was unable to break out the underlying profit growth of the existing leisure, pub and brewing businesses.

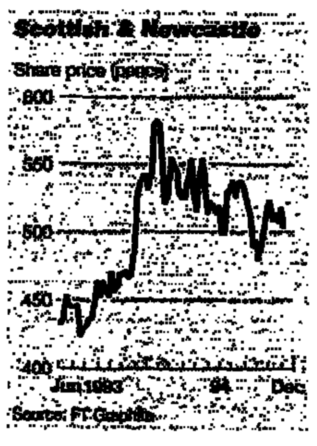
Chef & Brewer, acquired from Grand Metropolitan a year ago for £708m, is thought to be earnings enhancing, several analysts said. Operating profits from all pub retail activities rose to £73.3m (£29.2m) on sales of £364m (£145m).

Mr Stewart said the chain offered plenty more scope for development with, for example, the Homespreads food concept and the addition of accommodation at some sites. The group was achieving a 25 per cent return on investment in new projects in the chain, he added.

Chef & Brewer took little of S&N's beer during the half year, however, because of its supply agreement with Courage which expires next March. "Long-term, we would like to supply the bulk of it," Mr Stewart said.

Profits from brewing and related activities fell to £45.4m (£50.4m) on sales of £445m (£448m). Half the fall was attributable to low maltings prices which should recover next year, the group said.

S&N's beer volumes were up 2.4 per cent in the half year to October 30, with sales to the pub trade flat, but with improved margins, and sales to off-licences and other retailers up 11 per cent.



The group benefited from the warm summer weather and a good performance from brands such as Becks lager and Theakstons and McEwans Export beer.

Margins in the off-trade suffered a "substantial decline", but some second half-recovery is expected.

Leisure contributed profits of £49m (£47.1m) on sales of £202m (£192m). Center Parcs achieved a 10 per cent increase in profits thanks in part to the opening of a third UK holiday village at Longleat. Profits fell at Pontin's holiday centres because foreign competition led to a 7 per cent downturn in visitors. Pontin's bookings were up about 5 per cent in the second half, however.

Net debt was £740m at the end of the half year for gearing of 41 per cent. This was a slight increase from the year-end level because of a small cash outflow as expected.

The board declared a 7 per cent increase in the interim dividend from 5.78p to 6.18p. Earnings per share increased to 20.4p (18.8p) – or 20.2p (18.5p) fully diluted and excluding a £500,000 loss on property disposals against a loss of £200,000 a year earlier.

See Lex

Inchcape sells motor rental businesses

By Simon Davies

Inchcape, the international motors, services and marketing group, has sold its remaining car and van rental businesses to a management buy-out for £29.75m.

The sale of Kenning Car and Van Rental (KCVR) and United Rental Group had been expected, and represents the final phase of streamlining following the acquisitions of TKM and Hogg Group.

The buy-out was backed by venture capital group 3i, which has put together a £100m financing package to cover the purchase price and an additional off balance sheet debt of £70m related to the vehicle fleets.

Mr Chris Rowlands, director of 3i's Birmingham office, said the two companies had made a total operating profit of about £4.5m last year. 3i has put together £17m of equity funding, while Barclays arranged £15.5m of debt. The management will own about 40 per cent of the company's shares.

KCVR was purchased by Inchcape as part of the £383m acquisition of TKM in March 1992, while United was part of Hogg Group, which was bought in June. Their combined fleets, including vehicles operated by franchisees, amount to 25,000 vehicles and the two companies operate through more than 200 outlets.

Mr Kevin Betts, former finance director at Central TV, is to be chairman, and David Hardman will be chief executive. 3i said there had been competition for the deal from other vehicle rental companies and also venture capital groups.

New market growth boosts Oriflame

By David Blackwell

Strong growth in new markets has helped Oriflame International, the door-to-door cosmetics group, to lift interim profits by 17 per cent in spite of a slight decline in sales.

Pre-tax profits for the six months to end September rose from £5.39m to £6.3m on turnover of £40.5m (£40.9m). Direct sales, through more than 70,000 operatives, accounted for £24.5m (£24.7m) of total sales.

Shares in the group rose 12p to close at 269p.

Mr Robert af Jochnik, chairman, attributed the growth in profit to higher sales in Finland, Chile, Mexico and Portugal. He sees further growth in Spain and Portugal, and regards Latin America as the market most likely to expand rapidly, with Argentina, Colombia and Venezuela targetted for next year.

"The toughest markets in direct selling are in western Europe and the US, where retailing is so developed," he said. "It is different in the emerging markets, where people are looking for earning opportunities and retailing is not developed."

The group is also hoping to move into the Indian and Chinese markets. "We are confident of being in one or both of these markets in the next couple of years," said Mr af Jochnik.

The fall in total sales reflected the suspension of loss-making operations in France and Germany; restructuring in the UK and US; a switch from finished to bulk sales to the eastern Europe operation, which opens a new factory in Poland next summer; and a drop in mail order sales to Sweden.

The pre-tax figure was struck after £446,000 (£432,000) in interest and foreign exchange gains and losses. The group, which hedges currencies on the futures markets, ended the period with gearing down from 27 per cent to 19 per cent.

Earnings per share were 9.7p (8.4p), and the interim dividend is raised from 4.3p to 4.6p.

Housebuilding helps Allen jump to £2.74m

By Peter Pearse

Allen, the Wigan-based construction group, more than doubled pre-tax profits in the six months to October 2 as hire services and housebuilding turned in sharply improved contributions.

Group profits climbed to £2.74m (£1.25m) on turnover 62 per cent ahead at £49.4m (£30.5m). The results include figures for two months from DJ Ryan, the cable laying and civil engineering company bought for about £5.9m. While Kendrick Hire, the 41-strong chain of tool hire depots bought in September for £3m, is included in the balance sheet, it makes no contribution to the profit and loss account.

The shares were unchanged on the day at 163p.

Mr Donald Greenhalgh, Allen chairman and managing director, said Ryan had not been as profitable as expected, but stressed that the shortfall was material to Ryan, not to the group as a whole. The contracts for North West Water and British Gas were profitable; the problems were only in the contract for Nynex, the US telecommunications group. Allen was making a claim against the Ryan warrantors.

The division made operating profits of £348,000 on turnover of £7.96m.

Profits from hire services, which with Kendrick comprise 78 depots, jumped to £1.16m (£472,000) on turnover of £8.04m (£5.07m). Mr Ken Fox, group deputy managing director, said increased volumes, not prices, lay behind the advance.

Completions on the housebuilding side grew 46 per cent to 206 and profits were up at £1.22m (£822,000) on turnover of £12.4m (£8.6m).

Property development and investment made £128,000 (£83,000) on turnover of £314,000 (£295,000). Building contracting suffered the only profits downturn, from £332,000 to £238,000 on turnover ahead at £20.7m (£16.4m).

Gearing rose to 58.5 per cent, against 42 per cent last time and a self-imposed 60 per cent upper limit. Earnings per share were 6.48p (3.39p) and the interim dividend is 2p (1.65p).

Attwoods urges bid acceptance

Attwoods, the UK waste company which last week fell to the hostile £391m bid from Browning Ferris Industries of the US, yesterday urged shareholders who have not taken up the offer to do so.

The company said that if investors sold into the market instead, they would lose their rights to the additional contingent payment upon the sale of Attwoods' German business. The board had decided to accept BFI's offer of 116.75p, plus the proposed 3.25p dividend.

Mr Ken Foreman, Attwoods' chief executive, stands to gain up to £1.2m from the sale of his shares.

Preference shareholders will have to decide whether to wait for redemption or accept BFI's offer of 92p per share. BFI has the right to redeem the shares early at their par value of £1.

BFI won acceptances last week representing about 60 per cent of Attwoods' equity. If Mr Foreman leaves the company, he is entitled to a substantial compensation payment of more than £700,000.

National Home Loans in the black at £11.4m

By Christopher Price

National Home Loans, the centralised mortgage lender, yesterday confirmed the continuing stability in the housing market as it reported pre-tax profits of £11.4m for the year ended September 30, against losses of £36.6m last time. It was the group's first profitable year since 1990.

Mr Jonathan Perry, executive chairman, said the healthier property market was allowing the group to return to focusing on its core business of mortgage lending.

NHL had relaunched its residential mortgage business in June and had already signed up 1,000 intermediaries to sell its products. Mr Perry added that the group's aim was to quadruple this figure in an attempt to re-establish its position in the mortgage market.

"There is still room in the market for a quality mortgage provider," he said.

However, NHL still faces a financial restructuring with negative shareholders' funds standing at £24.8m against £38.1m last year, in addition to £24m outstanding in preference share dividends.

Mr Perry said he expected to announce details of the restructuring, which would involve a rights issue, early in the New Year.

"I think our shareholders expect us to come back for funds for this purpose at some time," he said.

Net interest income slipped from £48.1m to £45.6m. The group's mortgage assets fell 17 per cent to £1.67bn (£2.04bn). However, operating costs slid by the same percentage to £17m (£20.6m).

Provisions for bad debt fell from £66m to £23.8m, while the number of accounts more than three months in arrears dropped from 1,726 to 1,266.

Repossessions showed a sharp decline, falling from 2,548 to 837.

Earnings per share were 3.7p against losses of 43.1p last year. The final dividend, which was last paid in 1991, was again passed.

Growth in exports behind 50% improvement at Denby

By Peggy Hollinger

A strong rise in exports helped Denby Group, the pottery tableware maker which floated in May, to meet forecasts with a 50 per cent jump in annual pre-tax profits from £2.76m to £4.13m.

Mr Stephen Riley, managing director, said the results were "excellent. But it is not the first time they have been this good". Sales for the year to September 30 rose 25 per cent from £17.6m to £21.9m.

Exports surged by 82 per cent, offsetting what had been a disappointing second half in the UK, said Mr Riley. The tax increases in April had had a definite effect on the UK economy. However, "we are delighted to see that all the effort we put into the overseas business came through even more strongly than we had hoped for," he added.

Exports now accounted for 24 per cent of sales, against 16 per cent last year. Denby still had considerable potential abroad in an industry where exports on average represented 63 per cent of sales.

Turnover more than doubled in the US, where Denby had about 1,000 outlets through department stores and independent retailers. Denby is to double its marketing expenditure in the US from about $300,000 to $600,000 this year.

The group's UK sales grew by 14 per cent, helped by higher prices and increased impulse buying of products such as mugs and cookware.

Operating margins rose from 18.5 per cent to 20.8 per cent. Since 1991, when the management buy-out from Coloroll was completed, Denby's margins had benefited from price increases above the rate of inflation, which the group had been able to make because of improved design and service, said Mr Riley.

Last year Denby increased prices by 4.5 per cent. Mr Riley warned, however, that it would be increasingly difficult to push through higher price increases.

A 1.4p dividend is proposed. If the group had been quoted for the full year, it would have paid a notional 3.1p. Earnings rose from 6.5p to 9.2p.

The shares, which were 130p at flotation, fell 6p to 155p.

Magnet beats forecasts and Berisford cuts loss

By David Blackwell

Berisford International, the former commodities and property group which bought the Magnet kitchen and joinery business in March, yesterday announced its first dividend for five years.

Operating profits from the first seven months at Magnet were £8.2m – well ahead of City expectations. However, the group remained in the red for the year to the end of September, with a pre-tax loss of £3.2m on total turnover of £157.5m, compared with a loss of £5.5m on turnover of £77.6m previously. The board is proposing a dividend of 0.5p a share. Mr Alan Bowkett, chief executive, said the shareholders deserved "something for supporting us over the last few years".

Mr Bowkett said the group was now profitable in its continuing business. Furthermore, it was making good progress in its search for another acquisition, this time in the US, where it has more than $600m (£365m) of tax losses.

The group ended the year with £53.6m of net cash, up from £3.6m. Since then it has sold Ketlon, the automotive components concern, realising £21m and taking the net cash position to £70m.

Mr Bowkett said that he hoped to have completed a deal in the US by the middle of next year.

Magnet's operating profits were struck on sales of £102m and followed a previous loss of £900,000. Since March the group has cut staff by 469 and closed 31 high street outlets. So far it has spent £4.9m on restructuring.

It has begun to address new markets, particularly national builders of new houses. But it has also made big efforts to get back the jobbing builder, a likely repeat purchaser, by using its mailing list of 40,000 tradesmen.

Total group operating profits were £3.3m. The loss from discontinued operations, including the cocoa trading associate, totalled £8.4m.

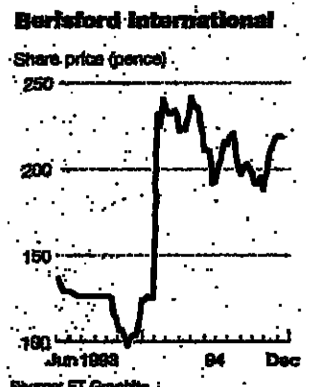
Losses per share came out at 2.1p, compared with 4.5p.

● COMMENT

Stripping out the £4m of gains from property and other disposals and the £2.9m of provisions would leave Berisford with a "normalised" pre-tax profit of £1.7m – or better than the break-even figure expected by the City. This reflects the impressive result at Magnet, where margins have been quickly lifted to 6 per cent, or about half the level of competitors. The shares are being held for Magnet's potential, the hitherto successful management team, and the potential for a US acquisition. The group has a head start in the US with the tax losses and £70m in the bank. Whether investors should buy more shares depends less on the forecast profits, estimated at £18m this year, than on how strongly they feel that success can be repeated across the Atlantic.

Trevor Humphries

Kitchen sink drama heads for US: Alan Bowkett, left, and Roy Hammond, operations director, seeking a new acquisition



Source: FT Graphite

HunterPrint escapes receiver

Tim Burt considers the repercussions of investing too heavily

The takeover offer by Quebecor Printing, the Canadian printer, for HunterPrint yesterday cleared another hurdle by extracting new terms from union leaders at the group's plant in Corby, Northamptonshire.

Mr David Doulton, HunterPrint's managing director, said the GPMU print union did not take much persuading. He told them that if they rejected the offer, the company's 500 workers "would be looking right down the receiver's throat".

Welcoming the deal, Mr Doulton claimed it would not only safeguard jobs but re-establish HunterPrint as an important force in UK printing.

Ironically, by recommending the offer he may also have signed his own death warrant. There is no guarantee that Quebecor will retain a management that has struggled to contain borrowings during five successive years of losses.

A £13.6m rights issue and £18.3m capital reorganisation failed to stem the tide, and investors who once saw the shares reach 565p have witnessed a steady decline to yesterday's close of 1¾p – a fall of 1¾p on the day.

Nevertheless, investors holding 53.5 per cent of the ordinary shares have accepted Quebecor's offer of 2p per share, while preference shareholders will get 1.33p per share.

With no other offers on the horizon and its auditors expressing "fundamental uncertainty" over its future, HunterPrint expects the remaining shareholders to accept given that receivership is the likely alternative.

But Mr Geoffrey Eades, finance director, said the group's performance could improve with Quebecor's backing. It could not get much worse. The company has been fighting a series of crises since it turned to lenders in 1989 to finance the bulk of its new plant at Corby.

Mr Eades lays the blame squarely at the door of Mr Michael Hunter, the founder, who pushed the company to the edge of bankruptcy by investing heavily in probably the UK's most modern web offset plant. That saddled the group with debts of £44.5m just as the recession hit the industry.

Some City analysts say the management, led from 1990 to 1992 by Sir Ian MacGregor, the former chairman of British Steel and the National Coal Board, made matters worse by sharply discounting prices to win more contract printing deals.

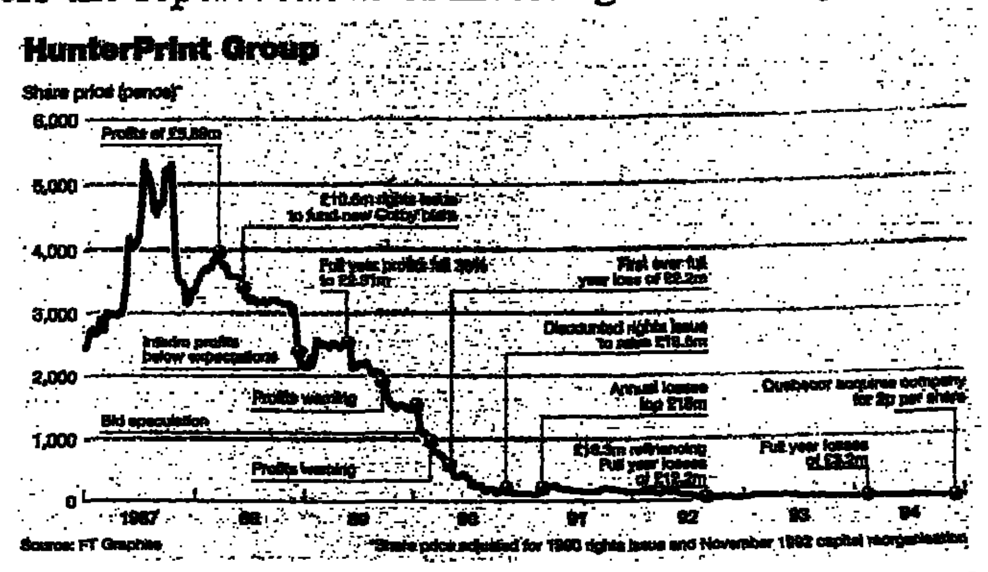
"They undercut their rivals by up to 50 per cent and could not generate the cash just to run the business," according to one.

Yet that strategy has paid off with potentially lucrative contracts with publishers such as Mirror Group Newspapers, the Guardian Media Group and Associated Newspapers, which Quebecor will inherit just as they are beginning to mature.

While agreeing to inject £7m to underpin the business, the Canadian group has also persuaded HunterPrint's lenders to waive interest on its current borrowing for two years.

Those borrowings have been steadily reduced to £17m, making the Corby site an even more attractive proposition.

For the printing industry, this may be bad news. A rival that looked terminally ill may be reborn in a leaner form, and HunterPrint could yet realise its founder's vision of "keeping one step ahead of the competition".



Source: FT Graphite

Board urges acceptance of Quebecor takeover

By Tim Burt

HunterPrint Group, the debt-burdened printing company, yesterday warned shareholders that failure to back an agreed takeover by Quebecor Printing, North America's second-biggest commercial printer, could force it to appoint receivers.

Announcing a 24.4 per cent increase in full year losses, the Corby-based company said it would be unable to guarantee the group's financial future if the C$3m (£1.4m) acquisition was derailed.

Pre-tax losses rose from £3.16m to £3.93m in the year to September 25 on turnover down from £50.8m to £49.2m.

The group, which is Britain's leading independent printer of national newspaper supplements, saw gearing increase from 134 per cent to 183 per cent – equivalent to total debts of £17m.

That meant it was unable to declare a dividend or pay dividends due on its cumulative redeemable preference shares.

"The level of on-demand [banking] facilities available to the current management does not provide sufficient working capital for the group's future trading requirements," said Mr Jeoff Samson, HunterPrint chairman.

Conditional consent for £92m DMGT acquisition

By Raymond Snoddy

Industry minister Mr Tim Eggar yesterday gave conditional consent for the Daily Mail and General Trust to acquire T Bailey Forman, publisher of the Nottingham Evening Post, for £92m.

In October the Monopolies & Mergers Commission unanimously opposed the acquisition on the grounds that it would give DMGT, publisher of the Daily Mail, too high a concentration of newspapers in the East Midlands. In order to be able to go ahead with the acquisition DMGT has to agree to a number of conditions:

● to create a new editorial board which will be responsible for maintaining editorial independence at the Nottingham Evening Post;

● to sell the Long Eaton Advertiser and Stapleford and Sandiacre News and not re-enter the weekly paid-for newspaper market in the East Midlands;

● to refrain from launching a regional edition of the Daily Mail in the area.

In addition, there will be a general obligation to avoid acting in a way that prevents, distorts or restricts competition in the newspaper market in the area, including advertising.

DMGT A shares rose 3p to 988p on the news.

Midland Independent Newspapers, publisher of the Birmingham Post and Mail, asked the government to block the deal and said the only way to address concerns about the acquisition was for DMGT to sell daily titles in the region.

Unipart takes strategic steps in manufacturing expansion

By John Griffiths

Unipart, the motor components and accessories group, will launch on Thursday a further expansion of its exhaust and catalytic converter manufacturing operations.

The move comes just six days after Unipart paid £21.6m for Ketlon, the motor components subsidiary of former commodities and property group, Berisford International.

The acquisition and expansion – at Unipart's Premier Exhausts subsidiary at Coventry – were described by Mr John Neill, Unipart's group chief executive, as " further strategic steps in the development of our manufacturing business."

Ketlon is to become part of Unipart Industries, the manufacturing division which has become the main focus of the group's expansion and which has acquired substantial business with Toyota's and Honda's UK car manufacturing operations.

Ketlon, which employs 400 at Paddock Wood in Kent, makes transmission parts for several vehicle makers, including Ford, General Motors, Honda, Jaguar and Rover.

It will substantially expand Unipart's machining process capability into a broader spread of motor components business. Specifically, it will complement Advanced Engineering Systems, a Tipton, Staffordshire-based subsidiary which already makes machined castings.

Abacus advances to £4.24m

Abacus Group, the electrical components distributor, reported pre-tax profits of £4.24m in its first full-year results since floating in November 1993, and announced a push into Scandinavia.

The 43 per cent increase on last year's £2.98m was struck on turnover of £37.5m, 21 per cent ahead from £30.9m. Allowing for the pre-flotation interest burden, profits before tax for the year to September 30 rose 24 per cent. Interest payable fell from £454,000 to £7,000.

Mr Harry Westropp, chairman, said the group had achieved its immediate growth objectives with the opening of a Singapore office, two offices in Southampton and the addition of two franchises, ICT and Framatome Connectors.

Dubilier, the passive components brand, and CTL Cables had both increased sales by some 80 per cent.

Earnings per share came out at 9.7p (7.4p). The recommended final dividend is 2.88p, giving a total for the year of 4p (1.12p), compared with a notional 3.5p.

The group acquired a 75 per cent stake in Promax, a Danish company which distributes Philips products in Denmark and Sweden, for £2.5m in October. Mr Westropp said expansion was also under way in Finland and Norway.

NEWS DIGEST

Bearing Power recovery

Improvements from both its Canadian and UK operations enabled Bearing Power International, a distributor of bearings and power transmission components, to recover from losses of £20,550 to pre-tax profits of £1.05m in the year to September 30.

Turnover climbed 57 per cent to £38.7m (£24.6m) and earnings per share came to 2.4p (0.5p losses). The final dividend has been stepped up to 1p (0.75p) and with current trading showing an improvement on last year, the company said it expected to pay its first interim next year.

Explaura

Explaura Holdings, the USM-quoted dolomite and limestone quarry group, was still looking for a strategic partner, Mr Robin Finch, the chairman, told the annual meeting.

Shareholders were reminded that Explaura was progressing only with the forbearance of its main creditor, Royal Bank of Canada, which had received no interest payments for a "considerable period".

When the current management took control it began building up the business prior to looking for a strategic partner.

Negotiations were taking place with three big companies which are interested in a joint venture, the chairman added.

Mr Finch also announced the resignation "for personal reasons" of Mr Rick Sandri, a director nominated by Inco.

Dwyer Estates

Dwyer Estates, the Irish property investment and trading group, built on its first-half recovery, ending the year with a pre-tax profit of £1.4m.

The outcome compared with a restated loss of £7.6m in 1993 and represented further improvement on the profit of £378,000 achieved in the first half this year.

The year had been one of considerable change, said the Joey Esfandi, the chief executive, with nine acquisitions made during the period.

Turnover for the year to September 30 grew from a restated £5.51m to £5.63m. The interest charge was cut from £3.58m to £2.22m and earnings came out at 3.16p (27.96p losses).

Dwyer is returning to the dividend list with a recommended final of 0.75p. The share price was unchanged at 46p.

Fuller sale

Fuller Smith & Turner is selling its 75 per cent stake in Classic Ales to Greenalls Group for £525,000 cash and the repayment of a £430,000 loan. The deal will generate an exceptional profit of about £500,000.

H Young improves

H Young Holdings, the marketing and distribution company, reported an 84 per cent advance in pre-tax profits from £787,000 to £1.45m for the year to September 30.

Turnover increased 29 per cent to £42m (£32.7m) and after interest payable of £358,000 (£305,000) earnings came out at 5.5p (3p) per share.

A final dividend of 2.4p (1.3p) is proposed for a 3.6p (3.3p) total.

Hunters Armley buy

Hunters Armley Group, the commercial printing company, is to pay £4.4m for the Bristol-based printer Harlequin Colourprint.

The initial consideration will be satisfied by £1.81m in cash and 57,470 new ordinary shares, equivalent to £100,000, which the vendors have agreed not to dispose of before December 1995. The remainder, to a maximum of £2.53m, will be paid in cash or Hunters Armley ordinary shares in three annual instalments beginning in 1996.

Harlequin had pre-tax profits of £258,000 for 1993 on turnover of £2.58m. Net assets stood at £850,000.

Tinsley Robor

An "improved performance from all operations" was reported by Tinsley Robor, with pre-tax profits advancing from £12,000 to £731,000 for the six months to end-September.

Turnover at the printing and packaging group was up from £13.1m to £14.7m, and after an interest charge unchanged at £231,000, earnings per share came out at 1.8p (0.2p losses).

The company is returning to the dividend list with a 0.333p distribution. The shares closed 2p ahead at 37p.

Mr John Rose, chairman, said prospects for the second half were encouraging, with every sign of margins being maintained.

Edinburgh Nw Tiger

Edinburgh New Tiger Trust, which invests in quoted smaller companies in emerging Asian countries, reported a 7 per cent fall in net asset value in the 9½ months period since its January launch.

Net asset value at October 31 was 44.75p, against 48.19p on January 14.

After-tax revenue for the period came to £1.34m and earnings per share were 0.4782p. There is a final dividend of 0.4p.

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COMMODITIES AND AGRICULTURE

Mild weather undermines oil

By Robert Corzine

Oil prices weakened further yesterday as unseasonably warm weather persisted in many parts of Europe and the US.

The price of the benchmark Brent Blend for January fell to $15.90 in late London trading, more than a dollar down from Thursday's close.

Recent temperatures in Europe have been 2° to 5° C above normal. Mild weather is also affecting the north-east and mid-west regions of the US, where demand for heating oil is 19 to 28 per cent below normal for this time of year.

World crude oil prices were also dragged down yesterday by sharp falls in the price of petrol in the US.

Petrol prices were affected by reports that some areas that were to introduce reformulated gasoline on January 1 were about to pull out of the programme. US cities with severe smog problems are required to introduce the fuel, but other areas have volunteered to join the programme.

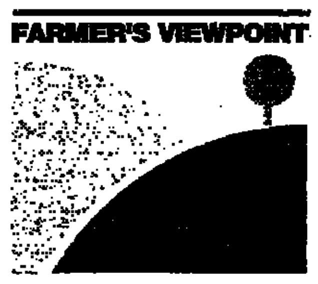
US refineries had been strong buyers of crude oil in recent weeks to ensure that adequate stocks of reformulated fuel were available.

Fears of withdrawals from the programme left markets "believing that reformulated gasoline will be in over-supply rather than under-supply", according to Mr Peter Gignoux, head of the energy desk at the London office of US brokers Smith Barney.

UK tenancy reform lacks incentives for landowners

Without fiscal changes opportunities for new entrants to agriculture may remain few and far between

FARMER'S VIEWPOINT



By David Richardson

Opportunities for young people in any industry are universally regarded as "a good thing". New blood brings new ideas that also stimulate those already involved. Farming is no exception, and one of the means by which this may be encouraged is through the availability of farms to rent. By relieving the new entrant of the requirement to purchase land it offers a relatively low cost way of getting a start.

I started that way myself, renting my first farm, on which I still live, when I was 20. It was fairly commonplace for a young man to be able to rent a farm in the late 1950s. But subsequent legislation and developments designed to avoid its provisions have brought about radical changes in the UK; and today few new farm tenancies are arranged.

So the announcement in the Queen's speech that a Tenancy Reform Bill to address the problem and encourage landowners to let more land would be presented during this session of parliament was, on the face of it, very good news.

Indeed, the government and the Royal Institute of Chartered Surveyors forecast that the reform, when enacted, would lead to 1m acres more farmland becoming available for rent. Sadly, I fear their estimates are wildly optimistic and that, short of fiscal reform, only a few new tenancies will be created.

Before 1947 most UK farmland was owned by one group – landowners – and farmed by another – tenants, through a variety of legal agreements. These were usually written in favour of landowners and it was not unusual for tenants to be evicted, without compensation for improvements, at the whim of the owner.

In 1947, as part of a wide-ranging Agricultural Act, Mr Tom Williams, the Labour agriculture minister, introduced life-time security of tenure for tenant farmers. The prospect of losing control of their land for many years together with the ability to sell it, if necessary, at the enhanced price available with vacant possession, reduced the number of tenancies being offered. But the supply did not dry up altogether, as I found in 1958.

In 1976, however, another Labour government brought in security of tenure for three farming generations, provided certain succession criteria were met. It was a measure that had been introduced in Scotland some years earlier.

It raised the possibility that, if they entered into new tenancy agreements, landowners might lose control of their farms for up to 100 years. The immediate effect was a refusal by landowners to be so hamstrung and to an extension of the established policy of taking any farms which came vacant "in hand" – that is farming the land themselves.

Not all landowners were successful at farming, however, and a variety of arrangements developed whereby owners could derive income from their land without having to do the job themselves, but also without creating undesireable tenancies.

In some cases land agents were retained to control managers employed by owners. Various forms of share-farming were introduced, with the owner entering into limited partnership arrangements with local farmers or their sons. Contract farming deals were devised that included full management of the farm by the contractor and guaranteed landowners a rental equivalent income as well as a share of the profit after costs. Some cashed in on the Gladstone v Bower case, which by judicial ruling allowed a licenced tenancy to run for up to five years without creating a full tenancy.

Furthermore, the owners who entered into contract arrangements, usually for three years, which has now emerged as the most widespread and popular way round the present law, also qualify to be taxed under Schedule D rather than having to pay higher rates when receiving rents, which count as unearned income; they are the farmers so can reclaim much of their VAT; and as owner-occupiers their heirs qualify for inheritance tax relief not available to the owners of let land.

In his budget last week the chancellor did nothing to change those owner-occupational benefits. It seems to me, therefore, that little has changed, or will change, when the Tenancy Reform Bill becomes law next year.

The new arrangements for which the Bill provides, which have been thrashed out over several years by the National Farmers' Unions, the Country Landowners Association, the Tenant Farmers' Association and the National Federation of Young Farmers' Clubs contain many sensible and practical ideas.

There is recognition, for instance, of the desires of both parties for flexibility. So, no minimum term for tenancies has been set and there will be more freedom on the uses to which the land is put. For the protection of tenants there will be mandatory compensation for improvements; provision for independent arbitration to settle disputes; effective procedures for notice to quit and a check on rent increases. All are workable, but without the extra incentive to the landowner that taxation reform would have provided I doubt the package will prove attractive to many.

I should declare an interest, as a non-executive director of one of the farm management companies involved in a great deal of the type of contract farming I have described. But I can see few reasons, other than altruism, why landowners should decide to give up those significant tax benefits plus a profit share, for which they qualify under a contract farming arrangement, in order to let their land under one of the proposed farm business tenancies.

Rubber pact extended

By Kieran Cooke in Kuala Lumpur

Members of the International Natural Rubber Organisation have agreed to a year's extension of the existing world rubber pact.

A meeting here of Inro, which groups six rubber exporting nations and 21 consumer countries, decided that the extension was necessary for the "final negotiation of the new agreement". Whether to grant an extension to the existing rubber pact, which stabilises prices through a buffer stock system, or negotiate a new agreement has been argued between producers and consumers for several months.

However, producers concerns have been tempered by a recent upsurge in natural rubber prices. Tight supply and growing demand, particularly China, have pushed prices to the highest level for six years.

At its meeting Inro said it was concerned that high prices had created a very volatile market and that heavy speculation by some traders had resulted in contract defaults. It said positive action was needed to restore order, confidence and credibility in the market.

MARKET REPORT

Silver's retreat continues

SILVER yesterday continued to lead the retreat of precious metals prices, closing 27.5 cents down in London at $4.65 a troy ounce. GOLD ended at $376.70, down $2.50, slightly up from an earlier 3¼-month low. "Silver did most of the hard work on the way up and it will probably do the same on the way down," one analyst said.

Wide swings in London Metal Exchange NICKEL prices resulted in a nervous day's trading throughout the base metals complex and all contracts ended sharply down.

Compiled from Reuters

Virgin Islands closure to reduce alumina surplus

By Kenneth Gooding, Mining Correspondent

Virgin Islands Alumina Corporation (Vialco) will shut its refinery in the West Indies for at least a year taking between 600,000 and 610,000 tonnes off the market.

Analysts said the alumina (aluminium oxide) market would still remain significantly in surplus in 1995. "But the closure might change sentiment a little and allow some producers to pass on in higher prices some of the cost increases they face," said Mr Tim Armstrong, at the CRU International consultancy organisation.

Glencore, the Switzerland-based international trading organisation that indirectly owns Vialco, blamed market conditions for the temporary closure, which takes affect by the end of this year. While not disclosing Vialco's production costs, Glencore admitted the plant was not breaking even at present alumina prices. The plant would be kept "in operational readiness".

Mr Armstrong estimated that there would be a 600,000-tonnes alumina surplus next year, despite the Vialco closure.

The alumina market is suffering because about 1m tonnes of western world aluminium capacity has been shut down in the past year following the international trade agreement between some of the major producing countries. A further 300,000 tonnes has been cut in Russia.

Gatt sees Uruguay Round settlement lifting cheese exports by 50 per cent

By Frances Williams in Geneva

Cheese exports could increase by up to 50 per cent as a result of market opening moves under the Uruguay Round trade pact, the General Agreement on Tariffs and Trade says in a report out today.

Gatt's latest annual survey of the world dairy market says the phased reduction of tariffs and establishment of minimum access levels for dairy products will provide new export opportunities in what has been hitherto one of the most protected of all industries.

Under the Uruguay Round deal, which is due to come into effect on January 1, countries must offer import access equivalent to at least 3 per cent of total consumption, rising to 6 per cent after six years.

For cheese this translates into additional imports of 110,000 tonnes (up from 213,286 tonnes to 323,819 tonnes), the EU market alone accounting for an extra 86,000 tonnes. For milk powder and butter the extra access is more modest at 12 per cent (53,000 tonnes) and 21 per cent (22,000 tonnes) respectively.

The trade pact also requires almost all import restrictions to be converted into tariffs and reduced by 36 per cent by the end of the decade. Even after these cuts dairy tariffs will sometimes be very high – over 100 per cent for Canada, Norway, Finland and Poland, among others.

However, Gatt points out that for exporters the tariffs, which normally cannot be raised again, are a more transparent and predictable form of trade protection than the plethora of import quotas and variable levies they are replacing.

Competitive exporters will also benefit from the planned export subsidy cuts. Gatt notes that the actual decrease will be higher than the required 21 per cent over six years because exports, especially of cheese, have risen since the 1986-90 reference period.

Reviewing the current market situation, Gatt says world milk production continued to decline this year, with lower output in Europe – especially in eastern Europe and the former Soviet Union – outweighing record production in Australia and New Zealand.

World production and consumption of butter are also on a long-term downtrend. But cheese production is rising and an even faster increase in demand for cheese is expected to sustain high prices and buoyant exports.

The World Market for Dairy Products 1994, (SFr35); and special annex, Summary of the Results of the Uruguay Round in the Dairy Sector, (SFr15): Available from Gatt, Centre William Rappard, 154 rue de Lausanne, CH-1211 Geneva 21.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1874-5	1900-1
Previous	1918-20	1944-5
High/low		1950/1885
AM Official	1913-4	1937-7.5
Kerb close		1885-6
Open int.	253,110	
Total daily turnover	82,684	

ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1825-35	1865-8
Previous	1845-55	1880-5
High/low		1885/1865
AM Official	1845-55	1880-90
Kerb close		1865-8
Open int.	3,051	
Total daily turnover	380	

LEAD ($ per tonne)

	Cash	3 mths
Close	637-8	654-4.5
Previous	652-4	668-7
High/low	644	667/646
AM Official	644-5	662-2.5
Kerb close		646-9
Open int.	43,636	
Total daily turnover	8,670	

NICKEL ($ per tonne)

	Cash	3 mths
Close	8830-40	8960-5
Previous	8825-35	8950-5
High/low	9220	9300/8800
AM Official	9210-20	9320-5
Kerb close		8760-800
Open int.	67,442	
Total daily turnover	19,180	

TIN ($ per tonne)

	Cash	3 mths
Close	6090-100	6180-90
Previous	6145-55	6230-40
High/low		6300/6080
AM Official	6165-75	6255-60
Kerb close		6060-80
Open int.	23,882	
Total daily turnover	5,369	

ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1105-10	1137-8
Previous	1145.5-7.5	1174-5
High/low		1170/1132
AM Official	1128-9	1156-7
Kerb close		1132-3
Open int.	107,793	
Total daily turnover	13,884	

COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2935-40	2900-1
Previous	2984-5	2943-4
High/low	2975/2974	2955/2890
AM Official	2973-4	2933-4
Kerb close		2897-8
Open int.	245,261	
Total daily turnover	57,702	

LME AM Official £/$ rate: 1.5690
LME Closing £/$ rate: 1.5615
Spot:1.5590 3 mths:1.5551 6 mths:1.5506 9 mths:1.5553

HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Dec	136.15	-2.50	137.05	134.55	8,883	1,276
Jan	134.80	-2.10	135.80	133.80	1,485	87
Feb	132.80	-2.55	132.80	132.80	721	18
Mar	131.80	-2.30	133.05	130.50	27,702	8,117
Apr	128.95	-1.85	-	-	67	32
May	125.60	-1.70	127.50	125.80	3,032	303
Total					53,182	9,032

PRECIOUS METALS

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	376.50-376.90	
Opening	377.10-377.50	
Morning fix	377.30	241.869
Afternoon fix	376.60	241.466
Day's High	377.30-377.70	
Day's Low	376.10-376.50	
Previous close	379.00-379.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.86	6 months	5.59
2 months	5.03	12 months	6.27
3 months	5.19		

Silver Fix	p/troy oz.	US cts equiv.
Spot	303.75	474.00
3 months	308.10	480.85
6 months	313.30	488.75
1 year	326.10	508.90

Gold Coins	$ price	£ equiv.
Krugerrand	378-381	242-245
Maple Leaf	388.90-389.35	-
New Sovereign	88-91	56-59

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	375.5	-	376.7	374.5	3,409	1,415
Jan	376.9	-	-	-	1	1
Feb	379.0	-	380.2	377.8	89,433	40,981
Apr	383.0	-	384.0	381.7	15,074	2,756
Jun	387.2	-	388.2	386.0	20,602	1,916
Aug	391.7	-0.1	-	-	11,596	6
Total					179,818	48,113

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Jan	400.5	+0.3	401.5	400.0	15,204	3,371
Apr	405.2	+0.4	406.0	404.5	9,871	606
Jul	409.5	+0.4	410.0	409.5	1,970	17
Oct	414.0	+0.4	413.0	413.0	819	1
Jan	417.0	+0.4	-	-	14	2
Total					27,878	3,997

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	152.30	-1.05	155.00	152.00	223	19
Mar	154.05	-1.30	155.00	153.50	6,005	842
Jun	155.05	-1.30	154.75	154.50	612	-
Sep	156.05	-1.05	-	-	96	-
Total					6,936	861

SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	457.3	-11.6	473.0	453.0	2,089	425
Jan	458.7	-12.0	466.0	464.0	85	8
Mar	464.5	-12.0	480.5	459.0	82,004	27,325
May	470.2	-12.0	486.0	484.5	8,393	1,219
Jul	476.2	-12.0	493.0	471.0	7,464	1,274
Sep	482.5	-12.0	493.5	477.5	9,025	68
Total					136,866	30,787

ENERGY

CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.68	-0.31	17.07	16.58	89,133	76,050
Feb	16.72	-0.27	17.06	16.62	70,210	41,488
Mar	16.76	-0.25	17.05	16.68	44,863	23,478
Apr	16.83	-0.24	17.05	16.75	19,792	4,819
May	16.90	-0.18	17.07	16.90	15,737	3,009
Jun	17.02	-0.08	17.16	16.96	27,837	4,352
Total					414,860	162,832

CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	16.10	-0.09	16.29	15.87	83,934	30,983
Feb	16.00	-0.06	16.18	15.81	51,152	22,230
Mar	15.96	-0.05	16.10	15.73	16,651	4,871
Apr	15.94	-0.05	16.10	15.75	7,544	956
May	15.85	-0.06	16.06	15.80	6,318	854
Jun	15.92	-	16.05	15.73	6,442	709
Total					183,285	59,149

HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	46.40	-0.82	47.25	46.15	53,898	34,088
Feb	47.20	-0.84	48.05	47.00	35,898	16,876
Mar	47.70	-0.49	48.25	47.45	14,884	7,896
Apr	47.50	-0.39	48.00	47.40	10,525	2,567
May	47.30	-0.34	47.60	47.20	5,827	1,159
Jun	47.10	-0.29	47.35	47.00	7,210	429
Total					159,234	67,015

GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	139.75	-2.50	142.00	137.75	29,632	12,338
Jan	142.50	-2.75	144.50	140.50	28,821	6,714
Feb	144.25	-3.00	146.50	142.50	20,235	1,670
Mar	146.00	-3.00	148.00	144.00	12,327	1,848
Apr	145.50	-3.00	147.75	144.50	3,940	1,176
May	146.50	-2.50	146.00	146.00	983	30
Total					106,813	24,029

NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	1.678	+0.040	1.680	1.620	31,922	12,887
Feb	1.710	+0.032	1.715	1.670	18,777	3,485
Mar	1.715	+0.030	1.715	1.680	15,562	2,803
Apr	1.680	+0.024	1.680	1.650	8,724	1,889
May	1.685	+0.022	1.685	1.665	6,476	586
Jun	1.700	+0.027	1.700	1.680	7,375	578
Total					140,422	26,130

UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jan	48.30	-2.31	50.80	47.80	29,939	24,467
Feb	48.90	-2.13	51.00	48.15	14,700	13,033
Mar	49.75	-2.12	51.10	48.00	8,438	3,449
Apr	53.20	-2.19	55.00	52.70	8,181	2,525
May	52.70	-1.89	53.35	52.40	3,906	2,083
Jun	52.50	-1.44	53.00	52.90	1,237	481
Total					76,060	46,877

GRAINS AND OIL SEEDS

WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	105.90	-0.15	106.30	106.15	1,526	128
Mar	106.90	-	107.30	106.90	1,704	22
May	108.65	-0.05	108.90	108.80	1,627	96
Jul	110.50	-0.10	110.50	110.50	262	10
Sep	95.25	-	-	-	77	-
Nov	96.80	+0.40	98.75	96.65	802	60
Total					6,085	318

WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	376/0	-3/2	380/0	374/6	2,982	2,478
Mar	390/2	-1/0	394/0	388/4	41,021	15,968
May	370/6	-1/4	374/0	370/4	6,097	1,081
Jul	339/4	-2/4	343/2	339/2	12,871	2,055
Sep	344/6	-2/2	346/4	344/6	587	44
Dec	357/4	-1/4	358/0	357/4	225	4
Total					63,774	21,636

MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	217/6	+2/2	218/2	215/2	16,162	7,037
Mar	228/0	+2/4	228/4	225/2	113,115	22,885
May	235/2	+2/4	235/4	232/4	40,070	3,751
Jul	240/2	+2/6	240/4	237/2	47,406	4,694
Sep	244/2	+2/4	244/4	242/0	4,993	231
Dec	248/2	+2/0	248/4	246/0	23,303	1,144
Total					247,844	39,827

BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	102.65	+0.40	102.75	102.75	405	11
Mar	104.65	+0.40	-	-	134	-
May	106.65	+0.65	-	-	44	-
Sep	94.75	+0.75	-	-	32	-
Nov	96.25	+0.50	96.25	96.25	81	33
Jan	98.00	+1.00	-	-	-	-
Total					696	44

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	562/2	-0/4	565/2	559/4	47,791	20,700
Mar	571/2	-0/6	574/4	568/6	32,128	5,708
May	578/0	-1/4	581/0	575/4	16,579	2,282
Jul	582/4	-1/2	585/0	580/4	25,449	2,899
Aug	584/0	-1/6	586/4	583/2	2,077	71
Sep	585/4	-1/4	587/4	585/0	1,296	157
Total					137,087	32,817

SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	29.73	+0.51	29.75	29.00	14,902	3,614
Jan	28.44	+0.37	28.51	27.82	38,279	7,229
Mar	27.21	+0.21	27.30	26.75	27,357	4,817
May	26.07	+0.15	26.10	25.67	18,777	2,100
Jul	25.21	+0.09	25.30	24.90	11,104	1,939
Aug	24.80	+0.05	24.85	24.70	2,278	65
Total					122,945	21,822

SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	154.6	-0.5	155.2	154.4	8,943	5,418
Jan	156.2	-0.6	157.0	155.9	32,540	5,825
Mar	160.0	-0.7	160.9	159.7	26,084	2,841
May	164.4	-0.4	165.0	163.9	12,807	1,805
Jul	169.1	-0.4	169.9	168.7	11,965	1,098
Aug	171.0	-0.7	171.9	171.0	2,984	113
Total					105,197	17,892

POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	250.0	-	-	-	-	-
Apr	268.5	-4.0	270.0	265.0	1,298	54
May	290.0	+7.5	-	-	2	-
Jun	250.0	-	-	-	-	-
Total					1,300	54

FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	2011	+8	-	-	341	-
Jan	1985	+21	2005	1976	895	198
Feb	1955	+20	1965	1965	68	49
Apr	1871	+23	1887	1855	1,258	147
Jul	1625	+25	1650	1610	158	30
Oct	1700	+25	1700	1700	22	1
Total					2,741	425

	Close	Prev
BFI	1992	1990

Tea
There was good general demand, reports the Tea Brokers' Association. Coloury liquoring Assams met keen competition and prices advanced 4 to 8 pence. Plainer North Indians remained about steady. Bright East Africans were irregular and closed 2 to 4 pence easier but mediums were well supported at fully firm rates. Better liquoring Ceylons held firm but poorer sorts were often easier. Medium Zimbabwe, Ceylon and Kenya teas sold well at last levels but plainer descriptions were lower where sold. Quotations: best available 180p/kg, good 135p/kg, good medium 126p/kg, medium 110p/kg, low medium 78p/kg. The highest price realised this week was 181p/kg for a Kenya pf.1.

SOFTS

COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	967	+19	984	948	6,608	454
Mar	939	+1	945	938	45,235	2,686
May	941	-2	949	941	17,969	617
Jul	949	-3	957	949	7,673	28
Sep	958	-1	966	957	13,789	565
Dec	975	-2	982	975	11,401	89
Total					111,259	5,179

COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1226	+4	1236	1228	364	117
Mar	1240	+4	1248	1236	42,591	4,852
May	1262	+4	1265	1260	10,682	1,160
Jul	1281	+3	1287	1280	3,846	279
Sep	1302	-2	1305	1302	1,673	27
Dec	1325	-2	-	-	5,366	137
Total					77,371	6,572

COCOA (ICCO) (SDR's/tonne)

Dec. 2	Price	Prev. day
Daily	940.52	937.25

COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	2884	+49	2900	2795	9,797	1,109
Mar	2846	+64	2857	2750	9,317	2,204
May	2826	+75	2820	2720	4,858	165
Jul	2808	+80	2775	2700	1,554	17
Sep	2785	+75	-	-	2,835	-
Nov	2770	+75	-	-	359	-
Total					28,318	3,495

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	159.50	+1.50	162.00	158.75	227	81
Mar	163.35	+2.35	164.65	159.75	17,205	4,451
May	165.45	+2.50	166.50	162.25	6,432	935
Jul	166.90	+2.40	168.00	164.50	2,596	78
Sep	168.60	+2.35	169.25	166.25	1,481	56
Dec	169.00	+2.10	169.00	167.50	1,114	36
Total					29,286	5,639

COFFEE (ICO) (US cents/pound)

Dec. 2	Price	Prev. day
Comp. daily	149.06	151.63
15 day average	162.03	164.06

No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	13.00	-	-	-	-	-
Mar	14.70	+0.15	-	-	370	-
May	14.78	+0.18	-	-	860	-
Jul	14.95	-	-	-	300	-
Total					1,530	-

WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	403.40	+1.30	404.00	398.50	12,360	1,627
May	394.30	+0.40	395.00	389.00	4,350	1,003
Aug	383.80	-0.10	384.00	379.20	4,087	339
Oct	354.50	-0.10	361.30	350.00	1,677	29
Dec	349.50	-0.10	-	-	130	-
Mar	349.00	-0.10	-	-	219	-
Total					22,883	2,998

SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	14.40	+0.11	14.50	14.20	99,598	22,950
May	14.41	+0.14	14.48	14.19	37,827	7,679
Jul	14.11	+0.01	14.20	13.95	22,961	2,109
Oct	13.24	+0.04	13.31	13.10	23,200	2,475
Mar	12.69	+0.04	12.74	12.60	5,936	607
May	12.46	+0.04	12.64	12.42	1,489	112
Total					191,998	36,984

COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	80.50	-0.90	81.50	80.00	426	429
Mar	81.70	-1.14	82.80	81.40	31,983	6,939
May	82.60	-1.15	83.65	82.25	10,164	3,326
Jul	82.60	-1.48	83.80	82.40	5,974	2,124
Oct	73.50	-0.50	74.00	73.50	932	298
Dec	71.65	-0.35	71.90	71.30	5,163	852
Total					54,684	13,971

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jan	103.60	-1.35	105.00	103.25	11,614	1,232
Mar	107.70	-1.35	109.20	107.30	7,245	589
May	110.60	-1.50	112.50	110.60	1,676	305
Jul	113.65	-1.50	113.55	113.55	1,044	8
Sep	116.55	-1.50	118.00	116.05	2,089	38
Nov	116.55	-1.00	117.00	117.00	1,467	263
Total					25,862	2,440

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

REUTERS (Base: 18/9/31=100)

Dec 5	Dec 2	month ago	year ago
2161.4	2157.8	2103.6	1695.7

CRB Futures (Base: 1967=100)

Dec 2	Dec 1	month ago	year ago
227.71	229.85	233.52	221.75

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	67.925	+0.125	68.200	67.675	13,882	3,762
Feb	67.950	-0.150	68.275	67.750	29,360	5,218
Apr	69.325	+0.075	69.500	69.075	18,548	2,363
Jun	64.750	-0.225	65.000	64.675	6,339	407
Aug	62.925	-0.175	63.225	62.900	2,562	160
Oct	63.775	-	63.850	63.700	1,037	28
Total					71,899	11,939

LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	30.925	+0.250	31.150	30.650	6,080	2,161
Feb	35.250	+0.475	35.500	34.600	1,440	372
Apr	36.675	+0.550	36.825	36.200	522	88
Jun	42.075	+0.500	42.175	41.575	425	46
Aug	41.825	+0.275	41.950	41.400	145	8
Oct	39.800	+0.325	39.850	39.500	9	1
Total					35,817	6,968

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	35.875	+0.250	36.400	35.650	8,197	2,151
Mar	36.250	+0.375	36.800	36.100	1,440	372
May	37.575	+0.525	38.000	37.450	522	88
Jul	38.400	+0.325	38.000	38.300	425	46
Aug	37.825	+0.350	37.800	37.600	145	8
Feb	47.400	+0.350	47.400	-	9	1
Total					18,730	2,866

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

ALUMINIUM (99.7%) LME	Feb	May	Feb	May
1850	111	146	80	116
1900	96	134	92	129
1950	87	123	105	142
COPPER (Grade A) LME	**Feb**	**May**	**Feb**	**May**
2850	148	124	77	180
2900	121	105	100	210
2950	97	89	126	242
COFFEE LCE	**Jan**	**Mar**	**Jan**	**Mar**
3000	53	149	169	303
3050	40	136	208	339
3100	30	122	246	376
COCOA LCE	**Dec**	**Mar**	**Dec**	**Mar**
900	-	67	-	26
925	-	53	-	39
950	-	41	-	52
BRENT CRUDE IPE	**Jan**	**Apr**	**Jan**	**Apr**
1600	32	62	24	99
1650	16	44	54	112
1700	5	31	99	149

LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel/Jan)		+or-
Dubai	$15.24-5.27z	-0.295
Brent Blend (dated)	$15.99-6.01	-0.39
Brent Blend (Jan)	$16.14-6.16	-0.39
W.T.I. (1pm est)	$16.85-6.87z	-0.44
OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Premium Gasoline	$153-155	-10.0
Gas Oil	$140-141	-3.0
Heavy Fuel Oil	$94-95	-3.0
Naphtha	$177-179	-0.5
Jet fuel	$159-162	-2.5
Diesel	$146-147	-2.0

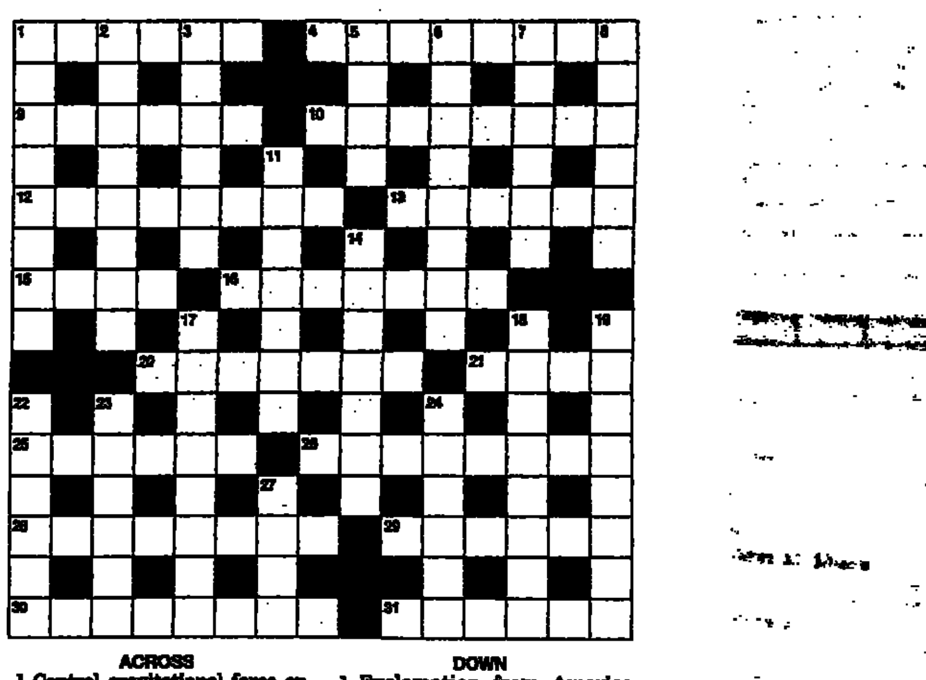
Petroleum Argus. Tel. London (071) 359 8792

OTHER		
Gold (per troy oz)♣	$376.70	-2.50
Silver (per troy oz)♣	465.0c	-27.5
Platinum (per troy oz.)	$400.25	-5.00
Palladium (per troy oz.)	$152.00	-4.00
Copper (US prod.)	143.0c	
Lead (US prod.)	40.75c	
Tin (Kuala Lumpur)	15.51r	+0.03
Tin (New York)	282.5c	-5.0
Cattle (live weight)†	119.55p	+0.84*
Sheep (live weight)†♦	117.54p	+10.15*
Pigs (live weight)	72.23p	-7.08*
Lon. day sugar (raw)	$348.20	-0.90
Lon. day sugar (wte)	$404.50	-2.60
Tate & Lyle export	£337.00	
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£127.0	
Wheat (US Dark North)	£165.0	
Rubber (Jan)♥	N/A	
Rubber (Feb)♥	N/A	
Rubber (KL RSS No1 Jul)	357.5m	+2.0
Coconut Oil (Phil)§	$705.0y	-10.0
Palm Oil (Malay.)§	$752.5z	
Copra (Phil)§	$457.0q	-14.0
Soyabeans (US)	£167.0v	+1.0
Cotton Outlook'A' index	84.30c	+1.10
Wooltops (64s Super)	464p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jan/Feb. v Nov/Dec. u Dec. z Jan. q Dec/Jan. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♦ Sheep (Live weight prices). * Change on week ◎ Prices are for previous day. † - 14/11/94 Corrected figure for WTI $17.00-7.02

CROSSWORD

No.8,629 Set by HIGHLANDER



ACROSS

1 Control gravitational force on top of pole (6)
4 Decoration or title at front of books (8)
9 Vocal cords here are cut short in wildcat (6)
10 Lives behind a North African shrub (8)
12 Solid brown – newfangled bilge (8)
13 Pretend to take for granted – it's appropriate (6)
15 What thief does in jail? (4)
16 Anointing ceremony hasn't started (7)
20 Put back cover girl problem (7)
21 What they say Archer draws for Dandy? (4)
25 Goes off with booty (6)
26 In the water at Cowes it's fresh (8)
28 Provide weapons and silver, and return container for brandy (8)
29 To wit – that's right – an Ottoman official (6)
30 Hung on for zero return: misplaced greed (8)
31 Potatoes might be discarded by mother (6)

DOWN

1 Exclamation from America about tongue in aspic perhaps (8)
2 Cover in a wild plant with small flowers (8)
3 Chased detectives off (6)
5 Animal turns up in grass (4)
6 Incombustible material is like cream, so upwardly mobile (8)
7 Some wear full dress uniform, inviting reprimand (6)
8 He samples tip of tea plant (6)
11 Finish off thinner one in the second row (7)
14 Way a tropical bird reveals staying power (7)
17 Pass on a record verbally, making conversation (8)
18 Marine creatures swim around, always restlessly excited (8)
19 Pearl might be educated, discerning and well-mannered (8)
22 Criticise pompous fool over trouble (6)
23 And not one Frenchman (6)
24 Firm given mine over a glass of sherry (6)
27 "Long hair", principal said (4)

Solution to Saturday's prize puzzle on Saturday December 17.
Solution to yesterday's prize puzzle on Monday December 19.

LONDON STOCK EXCHANGE

MARKET REPORT

Equities shrug off political/economic worries

By Steve Thompson

The surprisingly strong showing by Wall Street late on Friday and another firm performance by US markets at the outset yesterday saw London's equity market consolidate an early good rise, in spite of the twin threat of early moves to higher interest rates on both sides of the Atlantic.

At the close, the FT-SE 100 Index was 16.2 higher at 3,033.5. The strength in the leading stocks did not, however, extend to the rest of the stock market, where the FT-SE Mid 250 Index ended marginally easier at 3,458.3, down 1.6.

There were other deep-seated worries for London, with the market increasingly concerned at the prospect of the government being defeated in the House of Commons later today when the house votes on the increase in VAT on domestic fuel. Adding to the underlying concerns was tomorrow's meeting between Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, Governor of the Bank of England, to discuss monetary policy, and the £2.8bn gilts auction.

One very disturbing detail of the trading session, dealers said, was the exceptionally low level of activity in the market ahead of the Commons vote and the meeting of the chancellor and the governor.

Turnover in London was a dismal 456.3m shares, the lowest for more than two weeks, with non-Footsie stocks accounting for a disappointingly high 60 per cent of that figure. Even more worrying for traders was the fact that such a low turnover figure was boosted by a couple of programme trades, albeit of limited size.

There was no denying, however, that European stock markets had responded willingly to Wall Street's sharp rise last Friday. Questioned as to why the markets had raced ahead in the face of the constant flow of economic data pointing to the probability of interest rate rises here and in the US, one leading marketmaker in London said the markets had already factored in the next round of interest rate rises.

"The political scene has weighed very heavily on the London market today," he said. "Although it is very unlikely, if the government were to lose tonight we would be in very big trouble indeed. Without that I feel we would have been much stronger today."

Other dealers said there was a feeling around the trading desks that, given a yes vote on the VAT issue, the FT-SE 100 could easily progress to 3,180 before meeting any strong resistance.

There was also plenty of talk suggesting the long-awaited year-end rally may be taking shape. But again, the feeling was that Wall Street needed to demonstrate its resilience in the face of the interest rate concerns.

Buyers moved in for equities at the outset, with the FT-SE 100 opening around 11 points higher, before slipping into negative territory within an hour as the interest rate factor triggered pockets of profit-taking.

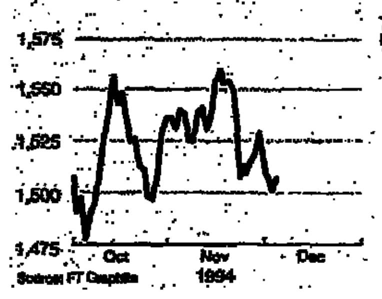
Once those bouts of selling were done, however, prices quickly regained the upward path, with overseas buyers also making their presence felt.

Shortly after midday the 100 index was more than 15 points ahead and it reached a day's high of 3,037.4, up some 20 points, before coming off that level an hour before the close.

Around the sectors, the regional electricity stocks attracted some sizeable profit-taking, with analysts pointing out the sector's recent outperformance against the market in anticipation of interim dividend increases of 20 per cent-plus. Seeboard began the "dividend race" last week.

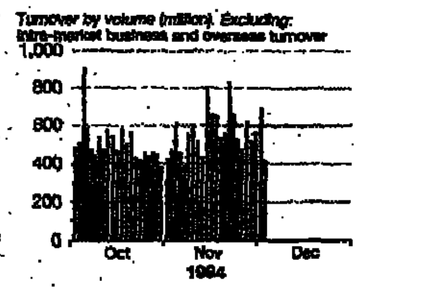
S.G. Warburg was the pick of the financial sectors of the market, reflecting a growing conviction that the bank will find rich pickings in moves by a number of UK building societies to merge and convert to banking status.

FT-SE-A All-Share Index



Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key indicators

Indices and ratios

FT-SE 100	3033.5	+16.2	FT Ordinary index	2328.9	+5.3
FT-SE Mid 250	3458.3	-1.6	FT-SE-A Non Fins p/e	18.17	(18.13)
FT-SE-A 350	1520.5	+6.1	FT-SE100 Fut Dec	3040.0	+35.0
FT-SE-A All-Share	1507.05	+5.61	10 yr Gilt yield	8.60	(8.56)
FT-SE-A All-Share yield	4.06	(4.08)	Long gilt/equity yld ratio:	2.13	(2.11)

Best performing sectors		Worst performing sectors	
1 Tobacco	+2.2	1 Retailers, General	-0.8
2 Merchant Banks	+1.4	2 Other Services & Bens	-0.7
3 Banks	+1.1	3 Building Materials	-0.5
4 Retailers, Food	+0.9	4 Oil, Integrated	-0.3
5 Leisure & Hotels	+0.8	5 Water	-0.2

Retailers under pressure

Retailing shares came under pressure as the market remained nervous about trading prospects in the Christmas period. Also, UBS was said to have turned negative on the sector.

This is traditionally the most lucrative time for most retailers, but nerves have set in recently about whether sales will match original forecasts. For clothes retailers, the warm weather of late has left many of the winter lines unsold.

Worries over the prospect of higher interest rates were another factor that cast a shadow over the sector. Burton Group dipped 1¾ to 66¼p, Kingfisher gave up 6 at 448p, Marks and Spencer softened 2 to 392p and Great Universal Stores, which reports interim figures on Thursday, declined 11 to 535p.

However, trading was not all one way in the sector and bargain hunters helped Boots firm 1½ to 489p. Hopes that the long awaited Office of Fair Trading investigation into warranties will not be as severe as originally expected helped Dixons harden a penny to 181p.

Recs weaken

Several regional electricity stocks (recs) fell back sharply after Kleinwort Benson downgraded the sector.

The securities house changed its recommendation from a buy to a hold on the sector as a whole, although its analysts declined to comment on reasons for the move.

Electricity shares had moved sharply ahead in recent sessions after last week's Budget made no mention of plans to impose a windfall tax on proceeds from the sale of the National Grid, owned by the 12 generators.

Sentiment in the sector yesterday was hit further by renewed nervousness about the outcome of today's VAT on domestic fuel debate in parliament and fears of a rise in interest rates in the near term.

The day's slide included East Midlands, which surrendered 12 at 751p, Manweb, 10 lower at 794p, Midlands, 3 easier at 780p, and London, which receded 5 to 698p.

However, Kleinwort Benson continues to favour some stocks in the sector, such as National Power. It urged investors to buy the stock, saying: "Significant cost control continues to drive profits growth, while an international portfolio of projects is gradually being assembled." National Power shares finished 5 ahead at 502p.

The long awaited restructuring package at its Mercury unit left Cable and Wireless a penny better at 377p, with most analysts reading positive management into the group's announcement of a 22 per cent workforce reduction.

Immediate adjustments to C&W's earnings were minimal, although the consensus view was that the group was taking a firm bite of the bullet and that as a result the shares' confidence factor had moved up several useful points.

C&W trading volume was modest at 2.6m shares, with most of the telecoms action reserved for Vodafone, which put on a penny at 199½p in 8.7m turnover.

Diversified industrial issue Tomkins barely flickered in response to what analysts saw as a sweeping boardroom reshuffle, firming a penny to 216p in nominal 2.2m turnover.

The mooted response reflected investors' difficulties in guaging management changes, although most commentators felt a certain amount of unease had begun to creep into stock market thinking.

By contrast, BTR was again actively traded, improving 1¾ to 277p in 7.2m turnover. There was also heavy dealing in BTR stock options, with nearly 4,000 lots dealt.

Bank shares stayed in confident mood, rising across the board as speculation on the timing of the next round of base rate rises appeared to focus on January.

Barclays gained 5 to 604p while Lloyds, up 2 to 556p in 5.4m turnover, was the most actively dealt share in the sector.

Sector watchers have begun to peer forward to the next results round (TSB's prelims are due early in the New Year) and - more significantly - to calculate the point at which interest rate rises actually begin to work against banking margins.

Investment bank BZW feels that bad debts could start to pile up for the industry once base rates work their way back up to 7 per cent, using recent US experience as a guide.

Among motor distributors Inchcape jumped 11 to 442p following a buy recommendation from Smith New Court and a £30m disposal of a two vehicle hire operations. Lex Service was also a feature, sliding 14 to 307p in 3.2m turnover with a 1.2m line of shares changing hands at 307p.

The 27.5 per cent increase in half-year profits from brewing group Scottish & Newcastle cheered the market leaving the shares 6 ahead to 503p.

Demand for Grand Metropolitan which reported figures last week continued yesterday and the shares gained another 8 to 508p, in trade of 5.7m with the market said to only now be appreciating the cash generation qualities of the group.

Freight specialist NFC dipped 3 to 162p ahead of today's prelims - and the possible announcement of a new chief executive - but it was the turnover in the shares that caught the eye, rising to 7.4m shares with a 3.5m block passing through the market at 162p. Elsewhere in the transport sector, British Airways added 2 to 369p helped by better than expected traffic figures for November which showed a 7.3 per cent gain. Bus operator Stagecoach, floated last year at 112p, was steady at 215p in advance of today's interims.

Food manufacturing group Hazlewood Foods fell 6 to 110p, in nervous trading ahead of today's interim figures. One analyst said simply, "I think it will be a bad set of results and what is more I think the statement from the company will be cautious."

Buoyant ice cream sales, courtesy of unseasonally mild European weather, were said to have been behind the advance in Unilever and the shares improved 17 to 1124p.

Engineering shares were mixed, with GKN a notable casualty, dipping 8 to 513p in modest 1.8m turnover. Siebe added 8 at 553p ahead of today's interims and amid hopes for an increase of at least 10 per cent in the half-time dividend. T&N showed signs of approaching a bottom after the recent rights issue-led fall-out, clawing back 6 at 165p.

The prospects of strong sales of the recently released new Beatles record were reported to have been behind the positive sentiment in Thorn EMI; the shares improved 14 to 1009p.

MARKET REPORTERS: Joel Kibazo, Jeffrey Brown.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (17). GILTS (1) BANKS (1) Banco Bilbao Vizcaya, BUILDING & CNSTRN (1) Andrews Sykes, DISTRIBUTORS (2) Faber Prest, Titan, DIVERSIFIED INDLS (2) Hawtin, Whitecroft, ELECTRNC & ELECT EQUP (1) Acal, ENGINEERING [illegible] Honda Motor, [illegible] INVESTMENT TRUSTS [illegible] Int'l. High Zero [illegible] INVESTMENT [illegible] LEISURE & HOTELS [illegible] MMT Computing. NEW LOWS [illegible] GILTS (9) BREWERIES [illegible] Brew N/V, [illegible] Eve, Lovell [illegible] MATLS & MCHTS [illegible] Darby Grp., [illegible] Lilleshall, [illegible] Wardle Storeys [illegible] EW Fact, [illegible] Ross Grp., [illegible] BTR, [illegible] BICC Cap. [illegible] Microsystems, [illegible] Berry Wehmiller [illegible] Westgarth, [illegible] GOODS [illegible] INVESTMENT TRUSTS [illegible] COMPANIES [illegible] ASSURANCE [illegible] Manchester, [illegible] Sterling Publishing [illegible] PROD (9) OTHER [illegible] Esso, Johnson [illegible] Policy Portfolio [illegible] SERVS & BUSNS [illegible] PAPER & PACKAGING [illegible] PROPERTY [illegible] Nurdin & Peacock [illegible] Boots, Cantors [illegible] Rhino, SPIRITS [illegible] Domecq, SUPPORT [illegible] Robinson, TELECOMMUNICATIONS [illegible] T & T, TEXTILES & APPAREL [illegible] Courtaulds Textiles, [illegible] Group 10p, TRANSPORT [illegible] (1) Whitpool, CANADIANS [illegible] Res., Echo Bay [illegible]

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures moved ahead strongly, making good a large part of the big sell-off experienced at the end of last week, writes Jeffrey Brown.

At the close of pit trading the FT-SE 100 December contract was 3,041, up 36. The final two sessions of last week saw the December contract fall by 88 points.

The premium to the cash market was around eight points – roughly where it had traded all day – or some five points above fair value.

Business was thin, with 12,683 contracts dealt, down from 15,919 on Friday. Moreover, around a quarter of these constituted spread trading as investors rolled over into the March contract. The December contract expires on December 16.

The contract reached a 3,045 best of the day around 3pm – 30 minutes after the opening on Wall Street – and dealers said that at that point there was a flurry of useful two-way business.

In late, screen-based trading the contract moved down to 3,039 in little additional turnover.

Traded option volume was significantly lower than on Friday, although heavy trading built up around a number of individual options. There were 30,168 total contracts, down from 44,235. BTR was the most active stock option at 3,960 lots, followed by GrandMet at 2,481. BAT and Boots were also actively dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3032.0	3040.0	+35.0	3045.0	3010.0	14259	47986
Mar	3047.0	3055.0	+35.0	3059.5	3028.5	3899	15404
Jun	3070.0	3073.0	+36.0	3070.0	3070.0	200	425

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3465.0	+5.0	-	-	0	2538
Mar	-	3500.0	+5.0	-	-	0	2797

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	3445.0	-	-	-	-	287

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3032) £10 per full index point

	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P
Dec	[illegible]	½	[illegible]	[illegible]	103½	12½	67	25	38	46½	18½	80½	6½	123	2½	172
Jan	222½	22½	181	31½	146½	46½	112	63½	83	86	58	113½	37½	144	26	182½
Feb	240½	33	204	46½	198	61	138½	81	107½	101½	82	127½	60½	157	44	192
Mar	231	47½	214½	61½	179½	77½	150	98	121	119	98	147	77½	178	60	209½
Jun†			262	66			192	124½			138	172½			97	231

Calls 5,733 Puts 7,584

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2875		2925		2975		3025		3075		3125		3175		3225	
Dec	169	4½	124	9½	83	18	50	35	26	61	12	98½	4	138	1½	185½
Jan	195½	24	157½	35½	123	50½	93½	70½	66	95	48	124	32	158	29½	196
Feb			180½	48½			118	85			78	136			38½	203
Mar			193	65			131½	102½			84	153			49½	216½
Jun†			237½	94½			179	132½			129	179½			89½	236½

Calls 299 Puts 1,663 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3400	3450	3500	3550	3600	3650	3700	3750
Dec	[illegible]	[illegible]	[illegible]	[illegible]				

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	1,000	337	+2
ASDA Group†	2,500	84	+¼
Abbey National†	1,800	416	+5
Albert Fisher	504	48	+2
Allied Domecq†	1,100	541	+9½
Anglian Water	340	495	+3
Argos	412	338	-1
Argyll Group†	3,900	253	+4
Arjo Wiggins†	561	205	+6½
Assoc. Brit. Foods†	338	551	+7
Assoc. Brit. Ports	202	274	
BAA†	2,700	486	-2
BAT Inds.†	2,400	437½	+6½
BET	188	102	
BICC	408	337	+1
BOC†	224	720	+5
BP†	5,900	414	-3
BPB Inds.	1,600	290	-2
BT†	5,700	372½	+2½
BTR†	8,400	277	+1½
Bank of Scotland†	1,700	208	+4½
Barclays†	2,800	604	+5
Bass†	2,400	515	-1
Blue Circle†	623	288	-8
Booker	349	400	-1
Boots†	1,400	489	+1½
Bowater†	1,500	441	+8
Brit. Aerospace†	1,200	439	+1
British Airways†	4,000	369	+2
British Gas†	8,300	305½	+½
British Land	361	357	+7
British Steel†	5,100	158	+½
Bunzl	1,100	169	+2
Burmah Castrol†	268	824	+3
Burton	5,500	66¼	-1¾
Cable & Wire†	2,600	377	+1
Cadbury Schweppes†	1,200	432½	+3½
Caradon†	2,300	257	-4
Carlton Comms.†	375	888	+4
Coats Viyella	1,900	201	
Comm. Union†	693	620	+2
Cookson	203	288	-1
Courtaulds†	3,700	427	+2½
Dalgety	16	422	
De La Rue†	73	1001	+8
Dixons	717	181	+1
Eastern Elect.†	285	804	-4
East Midland Elect.	279	751	-12
Electrocomps	402	487	
Eng China Clays	492	345	+1
Enterprise Oil†	1,400	383½	+7½
Eurotunnel Units	239	253	+1
FKI	87	161½	+½
Fisons	5,800	117	
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded.

LIFFE EQUITY OPTIONS

[illegible]

* Underlying security price. Premiums shown are based on closing offer prices. December 5, Total contracts: 30,168 Calls: 13,765 Puts: 13,608

FT - SE Actuaries Share Indices — The UK Series

[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

LONDON EQUITIES

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	66	4
Other Fixed Interest	0	0	14
Mineral Extraction	72	45	79
General Manufacturers	137	101	390
Consumer Goods	57	31	98
Services	95	71	334
Utilities	16	14	13
Financials	115	50	189
Investment Trusts	160	19	286
Others	58	22	40
Totals	711	419	1447

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

FT GOLD MINES INDEX

[illegible]

LONDON SHARE SERVICE

BANKS

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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هكذا من الاصل

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- *Free annual/interim report available, see details below.*
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) UK & Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xR ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1255 a year for each security shown, subject to the Editor's discretion

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FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 71) 873 4378 for more details.

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

CURRENCIES AND MONEY

MARKETS REPORT

Sterling nervous on worries about VAT vote today

Sterling traded steadily yesterday ahead of this evening's closely contested parliamentary vote on value added tax, *writes Philip Gawith.*

Analysts warned, however, that it was vulnerable to a heavy sell-off if the government was defeated. Interest rate markets were nervous, with short sterling contracts losing ground across the board. The March contract lost thirteen basis points to close in London at 92.68, down from 92.79.

The pound lost nearly a pfennig against the D-Mark in afternoon trade, to finish at DM2.4542, from DM2.461 on Friday. Against the dollar it was barely changed at $1.5591, from $1.5598.

Activity was generally quiet, with one analyst saying it had "the feel of the first pre-Christmas trading day."

In Europe the main movement came from the peseta, which weakened to close at Pta83.86 against the D-Mark, from Pta83.42.

■ Analysts said that UK markets continued to be dominated by political factors. Today the focus is on whether the government will prevail in a vote on value added tax. This follows anxieties last week about whether a vote on European Union finance would pass, and a possible leadership challenge to the prime minister.

Mr Peter Luxton, analyst at MMS, commented: "Sterling is being affected by the two "p's" – politics and policy." He said markets were worrying about a further loss of face for the government, as well as the possibility that a setback on VAT might leave a £1.5bn revenue hole in the 1995/6 budget.

Mr Mark Geddes, treasury strategist at Midland Global Markets, said that the key determinant for sterling until the year end would be tomorrow's monthly monetary meeting, rather than politics.

■ On a trade weighted basis the dollar has now appreciated 4.5 per cent from a recent low of 60.6 on October 25, and 5.5 per cent against the D-Mark.

One factor buoying the currency is that US short term rates have finally risen above those in Germany, giving investors an incentive to hold US assets. The interest rate argument could yet move further in the dollar's favour if German rates are cut.

Yesterday Mr Gerd Haeusler, a Bundesbank board member, told a meeting in Frankfurt that he personally believed another rate cut was possible, if inflation pressures eased further and money supply stayed under control.

Explaining the Bundesbank's policy, of persisting with a fixed rate repo in its weekly money market operations, Mr Haeusler said a variable rate tender could be difficult in times of volatility or uncertainty. "This is particularly true near to a real or supposed turnaround in interest rates," he said.

Mr Tony Norfield, treasury economist at Abn-Amro in London said: "The Bundesbank has not made up its mind about what to do yet." He said it would stick to a fixed repo until it was evident that a variable repo would not necessarily take short rates higher.

A further factor affecting the dollar were rumours that Mr Lloyd Bentsen, the US treasury secretary, would resign. Mr Bentsen later said the rumours were "premature", but traders said his departure would have little impact on the dollar.

Sentiment towards the dollar clearly continues to improve. Salomon Brothers has forecast the dollar rising to Y108 in the coming months while some bold spirits see it moving as far as DM2.20 by the end of 1995.

■ A meeting of European finance ministers in Brussels decided they need take no action to alter the fluctuation bands in the exchange rate mechanism. "The European Monetary Institute considers it is desirable to continue with the present arrangements. There will be no judgement on that," said Mr Lamberto Dini, Italian treasury minister, after the meeting.

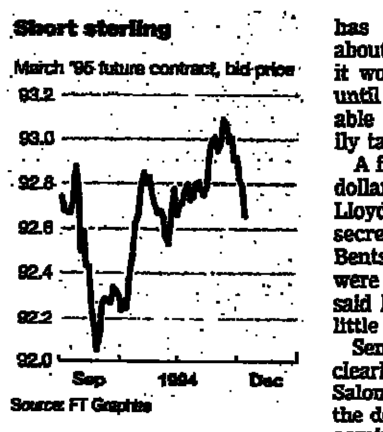
Later Mr Dini said the Italian government had not yet needed to decide whether it should rejoin the ERM.

One currency that will be joining the ERM is the Austrian schilling, when Austria becomes an EU member on January 1. Traders said this would have little impact on the schilling as it is virtually fixed to the D-Mark.

■ The Bank of England provided UK money markets with £205m late assistance, and £750m assistance at established rates, after forecasting a daily shortage of £1.1bn.

Short sterling

March '95 future contract, bid-price



Source: FT Graphite

■ Pound in New York

Dec 5	Latest	Prev. close
£ spot	1.5550	1.5600
1 mth	1.5546	1.5595
3 mth	1.5549	1.5598
1 yr	1.5539	1.5596

■ OTHER CURRENCIES

Dec 5	£	$
Hungary	172.574 - 172.797	110.710 - 110.810
Iran	2737.00 - 2741.00	1748.00 - 1750.00
Kuwait	0.4673 - 0.4686	0.2998 - 0.3005
Poland	37816.5 - 37877.8	24280.0 - 24230.0
Russia	5129.44 - 5132.58	3290.00 - 3292.00
U.A.E.	5.7233 - 5.7348	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Dec 5		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.2684	-0.082	622 - 786	17.3478	17.2622	17.2651	0.3	17.2532	0.4	-	-	115.1
Belgium	(BFr)	50.4627	-0.1668	319 - 934	50.6800	50.4319	50.4327	0.7	50.3427	1.0	49.7977	1.3	116.8
Denmark	(DKr)	9.6041	-0.0157	999 - 082	9.6408	9.5999	9.6053	-0.1	9.609	-0.2	9.5774	0.3	116.7
Finland	(FM)	7.6049	-0.0214	956 - 141	7.6410	7.5956	-	-	-	-	-	-	87.4
France	(FFr)	8.4281	-0.0155	253 - 309	8.4547	8.4253	8.4258	0.4	8.4168	0.5	8.3353	1.1	109.7
Germany	(DM)	2.4542	-0.0068	531 - 553	2.4648	2.4531	2.4533	0.5	2.4491	0.8	2.4143	1.6	125.9
Greece	(Dr)	378.236	-1.405	009 - 466	380.546	377.582	-	-	-	-	-	-	-
Ireland	(I£)	1.0163	+0.0003	154 - 172	1.0190	1.0154	1.0163	0.0	1.0157	0.3	1.0147	0.2	104.9
Italy	(L)	2523.21	-1.79	175 - 467	2528.23	2520.84	2529.61	-3.0	2539.16	-2.5	2579.66	-2.2	73.9
Luxembourg	(LFr)	50.4627	-0.1668	319 - 934	50.6800	50.4319	50.4327	0.7	50.3427	1.0	49.7977	1.3	116.8
Netherlands	(Fl)	2.7483	-0.0058	474 - 492	2.7592	2.7474	2.7473	0.5	2.7429	0.8	2.7081	1.5	120.7
Norway	(NKr)	10.6853	-0.0177	809 - 897	10.7193	10.6809	10.6958	-0.1	10.6951	0.0	10.6825	0.0	96.0
Portugal	(Es)	250.937	-0.657	655 - 218	251.880	250.655	252.667	-8.3	255.847	-7.8	-	-	-
Spain	(Pta)	205.809	+0.476	730 - 888	206.888	205.183	206.174	-2.1	206.699	-1.7	209.324	-1.7	84.9
Sweden	(SKr)	11.6794	-0.0613	693 - 894	11.7515	11.6693	11.6984	-2.0	11.7309	-1.8	11.8859	-1.8	78.0
Switzerland	(SFr)	2.0708	-0.0045	696 - 720	2.0789	2.0696	2.0674	2.0	2.0603	2.0	2.0167	2.6	120.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.1
Ecu	-	1.2864	-0.0035	856 - 872	1.2912	1.2856	1.2863	0.1	1.286	0.1	1.2781	0.6	-
SDR†	-	0.927771	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5561	-0.0008	557 - 564	1.5678	1.5540	-	-	-	-	-	-	-
Brazil	(R)	1.3299	-0.0076	281 - 317	1.3510	1.3281	-	-	-	-	-	-	-
Canada	(C$)	2.1407	+0.0003	399 - 415	2.1427	2.1358	2.141	-0.2	2.1398	0.2	2.1385	0.1	86.5
Mexico	(New Peso)	5.3618	+0.0001	592 - 643	5.3976	5.3560	-	-	-	-	-	-	-
USA	($)	1.5591	-0.0007	588 - 594	1.5616	1.5580	1.5595	-0.3	1.5592	0.0	1.5581	0.1	63.3
Pacific/Middle East/Africa													
Australia	(A$)	2.0237	-0.0029	226 - 247	2.0266	2.0175	2.0261	-1.4	2.0307	-1.4	2.0631	-1.9	-
Hong Kong	(HK$)	12.0612	-0.0062	581 - 643	12.0801	12.0532	12.0577	0.3	12.0651	-0.1	12.1319	-0.6	-
India	(Rs)	48.9441	-0.0087	307 - 574	49.0190	48.9130	-	-	-	-	-	-	-
Japan	(Y)	156.471	-0.128	394 - 548	157.150	156.394	156.021	3.5	155.106	3.5	149.571	4.4	188.2
Malaysia	(M$)	3.9984	+0.0081	968 - 999	4.0039	3.9920	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4738	-0.001	723 - 752	2.4756	2.4703	2.4804	-3.2	2.4915	-2.9	2.5296	-2.3	-
Philippines	(Peso)	37.4964	-0.2496	112 - 815	38.0200	36.9293	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8480	-0.0022	464 - 495	5.8569	5.8441	-	-	-	-	-	-	-
Singapore	(S$)	2.2877	-0.0078	864 - 889	2.2975	2.2864	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5582	-0.0066	556 - 606	5.5879	5.5556	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4422	+0.0308	254 - 590	6.4400	6.4254	-	-	-	-	-	-	-
South Korea	(Won)	1234.11	-1.29	379 - 442	1236.70	1233.31	-	-	-	-	-	-	-
Taiwan	(T$)	41.0258	-0.0651	066 - 450	41.1161	40.9652	-	-	-	-	-	-	-
Thailand	(Bt)	39.1256	+0.0226	103 - 409	39.1810	39.1060	-	-	-	-	-	-	-

†SDR rates for Dec 2. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 5		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	11.0765	-0.048	740 - 790	11.1275	11.0740	11.069	0.8	11.0525	0.9	10.965	1.1	104.2
Belgium	(BFr)	32.3685	-0.0935	530 - 800	32.4830	32.3530	32.339	1.0	32.2765	1.1	31.9315	1.3	105.8
Denmark	(DKr)	6.1600	-0.0075	585 - 615	6.1780	6.1585	6.1573	0.5	6.161	-0.1	6.15	0.2	105.0
Finland	(FM)	4.8777	-0.0118	727 - 827	4.8991	4.8727	4.873	1.2	4.8682	0.8	4.8582	0.4	81.7
France	(FFr)	5.4058	-0.0076	050 - 065	5.4195	5.4050	5.4024	0.7	5.3963	0.7	5.3448	1.1	108.1
Germany	(D)	1.5741	-0.0037	737 - 745	1.5790	1.5737	1.573	0.8	1.5702	1.0	1.5481	1.7	106.7
Greece	(Dr)	242.600	-0.6	500 - 700	243.880	242.040	245.3	-13.4	249.85	-12.0	268.35	-10.6	68.2
Ireland	(I£)	1.5341	-0.0011	331 - 351	1.5351	1.5312	1.5346	-0.4	1.535	-0.2	1.5341	0.0	-
Italy	(L)	1618.38	-0.47	775 - 900	1620.00	1616.65	1621.83	-2.6	1627.68	-2.3	1653.86	-2.2	74.4
Luxembourg	(LFr)	32.3685	-0.0935	530 - 800	32.4830	32.3530	32.339	1.0	32.2765	1.1	31.9315	1.3	105.8
Netherlands	(Fl)	1.7628	-0.0029	625 - 630	1.7685	1.7625	1.7615	0.9	1.7596	0.9	1.7365	1.5	105.5
Norway	(NKr)	6.8535	-0.0085	520 - 550	6.8722	6.8520	6.8547	-0.2	6.852	0.1	6.8435	0.1	96.2
Portugal	(Es)	160.950	-0.36	800 - 100	161.400	160.800	161.475	-3.9	162.5	-4.1	166.2	-3.3	95.0
Spain	(Pta)	132.005	+0.36	980 - 030	132.180	131.680	132.19	-1.7	132.51	-1.5	134.205	-1.7	80.3
Sweden	(SKr)	7.4911	-0.0362	861 - 961	7.5328	7.4840	7.5008	-1.6	7.5241	-1.8	7.6321	-1.9	81.3
Switzerland	(SFr)	1.3282	-0.0023	277 - 287	1.3329	1.3277	1.3257	2.3	1.321	2.2	1.2932	2.6	108.3
UK	(£)	1.5591	-0.0007	588 - 594	1.5616	1.5580	1.5595	-0.3	1.5592	0.0	1.5581	0.1	88.6
Ecu	-	1.2120	+0.0027	115 - 125	1.2125	1.2086	1.2123	-0.3	1.2129	-0.3	1.2202	-0.7	-
SDR†	-	1.45289	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9981	-0.0001	980 - 981	0.9982	0.9978	-	-	-	-	-	-	-
Brazil	(R)	0.8530	-0.0045	520 - 540	0.8860	0.8520	-	-	-	-	-	-	-
Canada	(C$)	1.3731	+0.0008	728 - 733	1.3733	1.3707	1.3724	0.6	1.3725	0.2	1.3761	-0.2	83.1
Mexico	(New Peso)	3.4390	+0.0015	380 - 400	3.4550	3.4360	3.44	-0.3	3.4418	-0.3	3.4492	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2981	-0.0012	975 - 986	1.2989	1.2940	1.2989	-0.7	1.3007	-0.8	1.3134	-1.2	91.0
Hong Kong	(HK$)	7.7360	-0.002	355 - 365	7.7365	7.7355	7.734	0.3	7.7328	0.2	7.7406	-0.1	-
India	(Rs)	31.3925	+0.0075	900 - 950	31.3950	31.3750	31.4625	-2.7	31.6075	-2.7	-	-	-
Japan	(Y)	100.360	-0.04	330 - 390	100.730	100.330	100.01	4.2	99.38	3.9	95.905	4.4	149.3
Malaysia	(M$)	2.5645	+0.0062	640 - 650	2.5650	2.5590	2.5615	1.4	2.557	1.2	2.585	-0.8	-
New Zealand	(NZ$)	1.5842	-0.0025	860 - 823	1.5863	1.5843	1.5852	-0.7	1.5876	-0.9	1.5968	-0.8	-
Philippines	(Peso)	24.0500	-0.15	000 - 000	24.2500	24.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7509	+0.0002	506 - 511	3.7513	3.7506	3.7545	-1.1	3.7614	-1.1	3.7759	-0.7	-
Singapore	(S$)	1.4673	-0.0044	668 - 678	1.4728	1.4668	1.4658	1.3	1.4623	1.4	1.4458	1.5	-
S Africa (Com.)	(R)	3.5650	-0.0028	640 - 660	3.5675	3.5563	3.5805	-5.2	3.6126	-5.3	3.7775	-6.0	-
S Africa (Fin.)	(R)	4.1320	+0.0215	220 - 420	4.1300	4.1220	4.16	-8.1	4.2045	-7.0	4.442	-7.5	-
South Korea	(Won)	791.550	-0.5	500 - 600	792.500	791.500	794.55	-4.5	798.05	-3.3	816.55	-3.2	-
Taiwan	(T$)	26.3136	-0.0307	065 - 210	26.3700	26.2770	26.3338	-0.9	26.3738	-0.9	-	-	-
Thailand	(Bt)	25.0850	+0.025	900 - 000	25.1050	25.0750	25.1245	-1.4	25.2155	-1.9	25.62	-2.1	-

†SDR rate for Dec 2. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted to US currency. J.P. Morgan nominal indices Dec 2. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 5	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	4⅞	5⅛	5⅛	5¼	6⅛	7.40	4.60	-
week ago	4⅞	5⅛	5⅛	5¼	6	7.40	4.50	-
France	5⅛	5⅛	5⅝	5⅝	6⅛	5.00	-	6.75
week ago	5⅛	5⅛	5⅛	5⅝	6⅛	5.00	-	6.75
Germany	5.05	5.23	5.23	5.28	5.58	6.00	4.50	4.85
week ago	4.93	5.23	5.15	5.25	5.55	6.00	4.50	4.85
Ireland	5⅛	5⅝	5⅞	6¼	7⅛	-	-	6.25
week ago	5⅛	5⅝	5⅝	6⅛	7⅛	-	-	6.25
Italy	8⅛	8⅛	8⅞	9⅛	9⅞	-	7.50	8.20
week ago	8⅛	8⅛	8⅝	9¼	10	-	7.50	8.20
Netherlands	4.84	5.29	5.30	5.45	5.78	-	5.25	-
week ago	4.85	5.29	5.20	5.38	5.72	-	5.25	-
Switzerland	3⅞	4	4⅛	4⅛	4⅞	6.625	3.50	-
week ago	3⅞	4	3⅞	4⅛	4⅝	6.625	3.50	-
US	5⅞	5⅞	6⅛	6⅛	7⅛	-	4.75	-
week ago	5½	5⅞	5⅞	6⅛	6⅞	-	4.75	-
Japan	2⅛	2⅛	2⅛	2⅛	2⅞	-	1.75	-
week ago	2⅛	2⅛	2⅛	2⅝	2⅞	-	1.75	-
■ $ LIBOR FT London								
Interbank Fixing	-	6⅛	6⅝	6⅞	7⅛	-	-	-
week ago	-	6⅛	6	6⅛	6⅞	-	-	-
US Dollar CDs	-	5.73	6.07	6.52	7.18	-	-	-
week ago	-	5.73	5.74	6.10	6.73	-	-	-
SDR Linked Ds	-	3⅝	3⅝	3⅝	4	-	-	-
week ago	-	3⅝	3⅝	3⅝	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅞; 3 mths: 5⅝; 6 mths: 6; 1 year: 6½. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 5	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	6⅛ - 6	5½ - 5¼	5⅝ - 5⅝	5⅞ - 5⅞	5⅞ - 5¾	6⅛ - 6
Danish Krone	5¼ - 5	5⅝ - 5⅜	5¾ - 5½	6⅛ - 5⅞	6½ - 6¼	7⅛ - 6⅞
D-Mark	5⅛ - 5	5⅛ - 5	5⅜ - 5⅜	5⅜ - 5⅜	5⅝ - 5½	5⅞ - 5¾
Dutch Guilder	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 5	5⅜ - 5⅜	5⅝ - 5½	5¾ - 5⅝
French Franc	5⅝ - 5⅜	5⅞ - 5⅝	5⅝ - 5⅝	5⅞ - 5½	5⅞ - 5⅞	6⅛ - 6⅛
Portuguese Esc.	8⅞ - 8⅞	9 - 8⅝	9¼ - 9⅛	10⅛ - 9⅞	10⅛ - 10	10⅞ - 10⅝
Spanish Peseta	7⅜ - 7⅛	7⅜ - 7⅛	7⅜ - 7⅛	7⅞ - 7⅝	8⅜ - 8⅛	9⅛ - 9
Sterling	5⅝ - 5½	5⅝ - 5½	5⅞ - 5⅝	6⅜ - 6⅛	6⅞ - 6⅝	7⅜ - 7⅛
Swiss Franc	3⅞ - 3⅝	3⅞ - 3⅝	3⅞ - 3⅞	4⅛ - 4	4⅜ - 4⅛	4⅝ - 4½
Can. Dollar	5¼ - 5⅛	5⅞ - 5¼	5½ - 5⅜	6⅛ - 5⅞	6⅞ - 6⅝	7⅜ - 7⅛
US Dollar	5⅝ - 5½	5⅝ - 5½	6⅛ - 6	6⅝ - 6½	6¾ - 6⅝	7⅜ - 7¼
Italian Lira	9 - 7½	8⅜ - 8⅛	8⅜ - 8⅛	8⅞ - 8⅝	9⅛ - 8⅞	9⅞ - 9⅝
Yen	2⅛ - 2⅛	2⅛ - 2⅛	2⅛ - 2⅛	2⅜ - 2⅛	2½ - 2⅜	2⅞ - 2⅝
Asian $Sing	3⅞ - 3⅝	4⅛ - 4⅛	4⅛ - 4⅛	4⅛ - 4⅛	4⅝ - 4⅜	4⅞ - 4⅝

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.36	94.35	-0.01	94.37	94.35	3,383	34,067
Mar	94.15	94.10	-0.03	94.15	94.10	8,665	61,266
Jun	93.71	93.70	-0.01	93.73	93.70	5,366	35,077
Sep	93.42	93.40	-0.01	93.43	93.40	4,150	23,146

■ THREE MONTH EURODOLLAR (LIFFE)* $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	93.57	-0.04	-	-	0	2827
Mar	-	92.81	-0.07	-	-	0	1468
Jun	-	92.24	-0.05	-	-	0	390
Sep	-	92.00	-0.05	-	-	0	177

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.74	94.70	-0.04	94.74	94.68	17972	119465
Mar	94.67	94.57	-0.09	94.67	94.55	37744	188269
Jun	94.34	94.25	-0.09	94.34	94.22	18104	130079
Sep	94.00	93.93	-0.08	94.01	93.91	10686	82443

■ THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	91.22	91.21	-0.02	91.29	91.20	2069	26845
Mar	90.72	90.64	-0.06	90.77	90.60	4032	36644
Jun	90.20	90.12	-0.07	90.24	90.10	1402	16817
Sep	89.80	89.72	-0.07	89.82	89.70	464	22502

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.87	95.74	-0.15	95.87	95.74	1620	14274
Mar	95.57	95.44	-0.13	95.57	95.42	2931	21849
Jun	95.20	95.15	-0.13	95.23	95.15	1220	7163
Sep	94.98	94.85	-0.15	94.97	94.85	608	3083

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.96	93.94	-0.05	93.97	93.94	847	7368
Mar	93.76	93.67	-0.08	93.76	93.67	736	8772
Jun	93.26	93.22	-0.07	93.27	93.25	91	4168
Sep	92.81	92.78	-0.07	92.81	92.81	60	2842

* LIFFE futures traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 5		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.03	16.70	4.863	2.013	5000	5.446	21.19	497.2	407.8	23.15	4.104	1.982	4.243	3.090	310.1	2.549
Denmark	(DKr)	52.54	10	8.776	2.555	1.058	2627	2.861	11.13	261.2	214.3	12.16	2.156	1.041	2.229	1.623	163.0	1.339
France	(FFr)	59.87	11.40	10	2.912	1.206	2994	3.261	12.68	297.7	244.2	13.86	2.457	1.187	2.540	1.850	185.7	1.526
Germany	(DM)	20.56	3.914	3.434	1	0.414	1028	1.120	4.356	102.2	83.86	4.760	0.844	0.407	0.872	0.635	63.77	0.524
Ireland	(I£)	49.67	9.453	8.295	2.415	1	2483	2.705	10.52	246.9	202.6	11.50	2.038	0.984	2.107	1.534	154.0	1.266
Italy	(L)	2.000	0.381	0.334	0.097	0.040	100.	0.109	0.424	9.945	8.157	0.463	0.082	0.040	0.085	0.062	6.203	0.051
Netherlands	(Fl)	18.36	3.495	3.067	0.893	0.370	918.1	1	3.890	91.30	74.89	4.250	0.754	0.364	0.779	0.567	56.95	0.468
Norway	(NKr)	47.20	8.984	7.884	2.296	0.950	2360	2.571	10	234.7	192.5	10.93	1.937	0.935	2.003	1.458	146.4	1.203
Portugal	(Es)	20.11	3.828	3.359	0.978	0.405	1006	1.095	4.261	100.	82.02	4.655	0.825	0.399	0.853	0.621	62.38	0.513
Spain	(Pta)	24.52	4.667	4.095	1.192	0.494	1226	1.335	5.194	121.9	100.	5.675	1.006	0.486	1.040	0.758	76.04	0.625
Sweden	(SKr)	43.20	8.223	7.216	2.101	0.870	2160	2.353	9.152	214.8	176.2	10	1.773	0.856	1.833	1.335	134.0	1.101
Switzerland	(SFr)	24.37	4.637	4.070	1.185	0.491	1218	1.327	5.162	121.1	99.37	5.640	1	0.483	1.034	0.753	75.57	0.621
UK	(£)	50.46	9.604	8.428	2.454	1.016	2523	2.748	10.69	250.9	205.8	11.68	2.071	1	2.141	1.559	156.5	1.286
Canada	(C$)	23.57	4.486	3.936	1.146	0.475	1178	1.284	4.993	117.2	96.12	5.455	0.967	0.467	1	0.728	73.10	0.601
US	($)	32.37	6.160	5.406	1.574	0.652	1618	1.763	6.857	160.9	132.0	7.492	1.328	0.641	1.373	1	100.4	0.825
Japan	(Y)	32.24	6.137	5.385	1.568	0.649	1612	1.756	6.831	160.3	131.5	7.463	1.323	0.639	1.368	0.996	100.	0.822
Ecu		39.24	7.468	6.554	1.908	0.790	1962	2.137	8.313	195.1	160.0	9.082	1.610	0.778	1.665	1.212	121.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6339	0.6347	+0.0012	0.6353	0.6336	38,959	99,9204
Mar	0.6351	0.6363	+0.0012	0.6369	0.6351	7,636	16,026
Jun	0.6391	0.6397	+0.0017	0.6397	0.6391	92	1,561

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9972	0.9970	+0.0013	0.9978	0.9937	43,373	77,630
Mar	1.0056	1.0064	+0.0014	1.0073	1.0058	11,029	21,946
Jun	1.0180	1.0190	+0.0017	1.0195	1.0180	42	1,279

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7501	0.7526	+0.0020	0.7535	0.7501	17,492	53,786
Mar	0.7560	0.7568	+0.0021	0.7573	0.7556	1,226	6,934
Jun	0.7616	0.7620	+0.0020	0.7620	0.7618	52	394

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5594	1.5596	-0.0012	1.5612	1.5584	14,491	51,161
Mar	1.5590	1.5600	-0.0012	1.5610	1.5590	2,562	8,963
Jun	1.5612	1.5612	-	1.5616	1.5600	2	148

UK INTEREST RATES

LONDON MONEY RATES

Dec 5	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6 - 4	5⅞ - 5⅛	5⅞ - 5⅞	6⅛ - 6⅛	6⅞ - 6⅝	7⅜ - 7⅛
Sterling CDs	-	-	5⅝ - 5⅝	6¼ - 6⅛	6⅞ - 6½	7⅜ - 7⅛
Treasury Bills	-	-	5⅞ - 5⅞	6⅛ - 6	-	-
Bank Bills	-	-	5⅞ - 5⅞	6⅛ - 6⅛	6⅞ - 6½	-
Local authority deps.	5⅞ - 5⅝	5⅞ - 5⅝	5⅞ - 5⅞	6¼ - 6⅛	6⅞ - 6⅞	7⅜ - 7⅛
Discount Market deps	6 - 4¼	5¼ - 5⅛	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¼	3¼	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.8590pc. ECGD fixed rate Stlg. Export Finance. Make up day Nov 30, 1994. Agreed rate for period Dec 26, 1994 to Jan 24, 1995, Schemes II & III 7.39pc. Reference rate for period Nov 1, 1994 to Nov 30, 1994, Schemes IV & V 6.107pc. Finance House Base Rate 6½pc from Dec 1, 1994

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.55	93.52	-0.05	93.55	93.49	21947	115542
Mar	92.76	92.68	-0.13	92.76	92.63	39723	92383
Jun	92.18	92.10	-0.12	92.18	92.06	11516	58891
Sep	91.74	91.68	-0.09	91.74	91.65	4494	65195

Traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.12	0.03	0.05	0.10	0.87	1.45
9375	0.03	0.01	0.03	0.26	1.10	1.68
9400	0.01	0	0.01	0.49	1.34	1.91

Est. vol. total, Calls 35292 Puts 5890. Previous day's open int., Calls 337982 Puts 240760

EMS EUROPEAN CURRENCY UNIT RATES

Dec 5	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.14485	-0.0022	-2.36	6.56	-
Belgium	40.2123	39.3682	-0.0345	-2.05	6.22	15
Ireland	0.808628	0.792888	+0.002024	-1.93	6.10	18
Germany	1.94964	1.91536	-0.00197	-1.76	5.91	-
France	6.53883	6.57645	+0.00236	0.58	3.45	-5
Denmark	7.43679	7.49312	-0.00284	0.76	3.27	-5
Portugal	192.854	195.884	-0.019	1.57	2.44	-11
Spain	154.250	160.493	+0.455	4.05	0.00	-26
NON ERM MEMBERS						
Greece	264.513	295.229	-0.304	11.61	-6.78	-
Italy	1793.19	1966.35	-0.02	9.66	-5.12	-
UK	0.786749	0.779155	+0.002139	-0.97	5.06	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.525	3.41	3.87	4.57	-	0.45	0.95
1.550	1.31	2.17	2.97	0.34	1.19	1.82
1.575	0.21	1.01	1.75	1.74	2.51	3.07
1.600	-	0.38	1.00	3.95	4.31	4.78
1.625	-	0.10	0.55	6.41	6.51	6.80
1.650	-	-	0.30	8.91	8.84	8.98

Previous day's vol., Calls 6,540 Puts 10,801. Prev. day's open int., Calls 392,293 Puts 350,733

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	93.61	93.60	-0.01	93.62	93.57	144,560	349,416
Mar	92.90	92.84	-0.04	92.90	92.80	354,660	497,623
Jun	92.36	92.31	-0.02	92.39	92.26	246,300	381,237

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.26	94.28	-0.01	94.28	94.26	2,130	8,883
Mar	93.46	93.43	-0.03	93.46	93.39	3,091	15,682
Jun	92.88	92.88	-0.03	92.88	92.87	399	2,424

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9450	0.21	0.15	0.17	0.20	0.01	0.08	0.10	0.13
9475	0.03	0.03	0.06	0.08	0.08	0.21	0.24	0.26
9500	0.01	0.01	0.02	0.02	0.31	0.44	0.45	0.48

Est. vol. total, Calls 6913 Puts 4096. Previous day's open int., Calls 200089 Puts 210115

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9550	0.27	0.16	0.12	0.03	0.21	0.47
9575	0.08	0.06	0.05	0.07	0.37	0.86
9600	0.02	0.03	0.02	0.40	0.59	0.98

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 2815 Puts 1815

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	*Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	8
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	•Smith & Williamson Secs	5.75
•Henry Ansbacher	5.75	•Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	•United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	•Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	•Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	•Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
•Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	•Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	*Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	•Rea Brothers	5.75		

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* In administration

FT CONFERENCES

THE POLISH HIGHWAY PROGRAMME - OPPORTUNITIES FOR PRIVATE FINANCE AND INVESTMENT

Warsaw, 12 & 13 December 1994

This Financial Times conference, arranged in association with The Institution of Civil Engineers (ICE), will mark the commencement of the forthcoming State Highway Construction Programme with this high-level forum to explore the key challenges - financial, technical, managerial and operational - in mounting major infrastructure projects in Poland. Speakers include: Dr Boguslaw Liberadzki, Polish Minister of Transport and Maritime Economy; Mr Ryszard Pazura, Polish Deputy Minister of Finance; Mr Andrzej Patalas and Mr Miroslaw Gretik, Agency for Motorway Construction; Dr Paul Knotter, The World Bank Poland; Mr Maciej Olex-Szczytowski, Schroder Polska; Dr Manfred Knoll, Deutsche Bank AG; Mr Pawel Gizbert-Studnicki, BPH Bank; Mr Lars Nordin, European Bank for Reconstruction and Development; Mr Walter Cernoia, European Investment Bank; Mr A Kent Rifley, Bechtel Civil Company; Mr Henry Liszka, Bovis Polska; Mr Dariusz Słotwiński, Dromex; Mr Olivier Bonnin, Bouygues.

BIOTECHNOLOGY - A REVOLUTION IN THE MAKING?

London 13 & 14 December 1994

This high-level meeting will review current developments in biotechnology and assess future trends; consider regulatory issues and discuss the challenges of raising the finance needed to exploit fully the sector's potential. Speakers will include: Dr Frank Baldino Jr, Cephalon Inc; Carl Feldbaum, Biotechnology Industry Organization; Professor Dr Jürgen Drews, Hoffmann-La Roche Inc; Professor Ernst-Günter Afting, Roussel Uclaf; Mr Strachan Heppell CB, European Medicines Evaluation Agency; Dr Alan G Walton, Oxford BioScience Partners; Dr John Keller, SmithKline Beecham Pharmaceuticals; Dr Stelios Papadopoulos, PaineWebber Inc; Dr Kate Murashige, Morrison & Foerster and Teoh Yong Sea, Singapore Bio-Innovations Pte Ltd.

INTERCONNECTION - THE EVOLVING UK PROGRAMME AND ITS INTERNATIONAL CONTEXT

London, 8 February 1995

Senior speakers from OFTEL, led by Mr Don Cruickshank its Director General, will look at the key issues of the UK's interconnection programme. This joint conference will also address interconnection and competition in international telecommunications, with presentations from the US Federal Communications Commission, the European Commission's Telecommunications Directorate and the Swedish National Post and Telecom Agency.

LONDON MOTOR CONFERENCE

London 20 February 1995

This annual FT meeting, the tenth in a highly successful series, will focus on block exemption, examine the changing relationship between vehicle manufacturers and dealers and address the issue of competitiveness in the automotive components sector. Speakers include: Professor Garel Rhys OBE, Professor of Motor Industry Economics, Cardiff Business School; Sir Trevor Chinn CVO, Chairman and Chief Executive, Lex Service PLC and Betty Thayer, Associate Partner, Andersen Consulting.

CABLE, SATELLITE AND NEW MEDIA

London, 27 & 28 February 1995

The Financial Times' annual conference will take as its theme Cable, Satellite and New Media. Speakers include Mr Stephen Davidson, TeleWest Communications Group Limited; Mr Marc Tessier, Canal +; Sir David English, Associated Newspapers Ltd who is launching a New York style 24-hours a day news channel for cable; Mr Robert Phillis, British Broadcasting Corporation and Mr Neil Blackley, Goldman Sachs International.

All enquiries should be addressed to: Financial Times Conferences, P O Box 3651, London SW12 8PH, UK. Telephone: 081-673 9000, Fax: 081-673 1335.

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 5 / Sch)

BELGIUM/LUXEMBOURG (Dec 5 / Frs.)

DENMARK (Dec 5 / Kr)

FINLAND (Dec 5 / Mka)

FRANCE (Dec 5 / Frs.)

GERMANY (Dec 5 / Dm.)

ITALY (Dec 5 / Lira)

NETHERLANDS (Dec 5 / Fls.)

NORWAY (Dec 5 / Kroner)

SPAIN (Dec 5 / Pts.)

SWEDEN (Dec 5 / Kronor)

SWITZERLAND (Dec 5 / Frs.)

PACIFIC

JAPAN (Dec 5 / Yen)

HONG KONG (Dec 5 / H.K.$)

MALAYSIA (Dec 5 / MYR)

SINGAPORE (Dec 5 / S$)

AUSTRALIA (Dec 5 / Aus$)

NORTH AMERICA

CANADA

TORONTO (Dec 5 / Can $)
4 pm close

MONTREAL (Dec 5 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Dec 5 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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TOKYO - MOST ACTIVE STOCKS: Monday, December 5, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Pacific Metals	3.9m	535	+31	Mitsubishi Elec	2.4m	710	+10
Nippon Steel	3.8m	375	+9	Nomura Secs	2.3m	2070	+80
Toshiba	3.2m	731	+21	Sumitomo Re & Dev.	2.2m	575	-5
Kawasaki Steel	3.0m	406		Sumitomo Mtl Ind	2.1m	326	+13
Daiwa Secs	2.8m	1380	+50	Hitachi	2.1m	985	+7

INDICES

	Dec 5	Dec 2	Dec 1	1994 High		1994 Low	
Switzerland							
Swiss Bk Ind (31/12/58)	1223.08	1210.77	1210.63	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	922.20	913.16	913.27	1066.28	31/1	876.57	27/10
Taiwan							
Weighted Pr.(30/6/66)**	6750.22	6479.82	6444.05	7191.13	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	(c)	1338.11	1371.60	1753.73	4/1	1196.59	4/4
Turkey							
Istanbul Comp.(Jan 1986)	28852.0	29145.1	28427.2	29145.10	2/12	12980.70	24/3
WORLD							
MS Capital Int (1/1/70)§	610.7*	607.3	608.9	649.80	2/11	581.60	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1353.74	1342.92	1344.45	1540.18	31/1	1286.48	5/10
Euro Top-100 (26/6/90)	1185.20	1178.38	1178.15	1311.01	2/2	1136.48	5/10
JCapalOrgns (31/12/88)	(c)	298.99	305.47	365.18	5/1	280.28	21/3
Barings Emerg.(7/1/92)	170.57	171.95	173.48	191.79	26/9	141.65	21/4

US INDICES

Dow Jones	Dec 2	Dec 1	Nov 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3745.62	3700.87	3739.23	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	93.88	93.83	94.12	105.61 (21/1)	93.61 (28/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1436.40	1431.04	1443.39	1862.29 (2/2)	1422.19 (23/11)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	178.41	177.04	179.54	227.86 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3756.04 (3755.37) Low 3680.88 (3680.88) (Theoretical♣)
Day's high 3748.29 (3743.26) Low 3690.44 (3690.44) (Actual♣)

Standard and Poors	Dec 2	Dec 1	Nov 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	453.30	448.92	453.69	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	538.83	533.72	538.65	563.18 (25/10)	510.05 (21/4)	563.18 (25/10/94)	3.62 (21/6/32)
Financial	41.26	40.75	41.04	46.94 (14/6)	38.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	248.01	246.04	248.41	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	432.46	431.19	433.86	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	745.62	740.61	750.32	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

RATIOS

	Dec 2	Nov 25	Nov 18	Year ago
Dow Jones Ind. Div. Yield	2.84	2.87	2.79	2.70
	Nov 30	Nov 23	Nov 16	Year ago
S & P Ind. Div. yield	2.48	2.48	2.38	2.40
S & P Ind. P/E ratio	18.42	18.29	19.03	27.14

STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	453.85	455.50	+1.80	455.50	453.75	100,039	192,238
Mar	457.60	458.60	+1.60	458.60	457.40	14,068	72,841
Jun	-	462.30	-	462.30	-	315	5,210

Open interest figures are for previous day.

CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett.Price	Change	High	Low	Est. vol.	Open int.
Dec	2000.0	1991.0	-8.0	2012.0	1981.0	16,848	32,450
Jan	2008.5	1998.5	-8.0	2008.5	1999.5	7	742
Mar	2027.0	2008.5	-8.0	2034.0	2006.5	82	7,450

Open interest figures for previous day.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Wal-Mart	4,745,000	22½	—
RJR Nabisco	4,458,100	6¾	-⅛
British Steel	4,387,800	24¼	-¼
Santa Fe	4,216,300	16½	-⅛
Best Buy Co	3,574,200	39¾	+⅞
Amer T & T	3,429,100	48¼	-⅛
Ford Motor	3,048,400	27¼	+⅛
Telefonos	2,829,200	52¼	+⅛
Chrysler	2,475,500	48½	+¼
Parker Drill	2,355,800	4⅝	-⅛

TRADING ACTIVITY

● Volume (million)	Dec 2	Dec 1	Nov 30
New York SE	284.745	282.296	298.656
Amex	14.761	16.988	19.084
NASDAQ	230.857	252.789	301.049
NYSE			
Issues Traded	2,915	2,928	2,944
Rises	1,425	675	1,268
Falls	870	1,553	990
Unchanged	620	700	686
New Highs	4	9	23
New Lows	120	135	90

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close December 5

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng. Prev. Close
17⅜	11⅞	AAR	0.48	3.7	22	48	13	12⅞	13	+⅛
18⅛	12⅝	A L Labs A	0.18	1.0	39	72	17½	17¼	17¼	+⅛
78⅝	57⅜	AMP	1.68	2.4	21	834	71¼	70⅝	71⅛	+¼
72¾	48⅛	AMR			110	6404	52	51¾	51⅞	+½
5	3⅛	ARX			12	65	3⅞	3¾	3¾	
59⅛	39⅝	ASA	2.00	4.8	27	370	42	41⅝	41⅝	-⅛
33	25⅞	AbbotL	0.76	2.4	17	6995	32⅛	31⅞	32	+¾
15¼	11⅞	AbitibiPr	0.50	3.8	12	112	13¼	13⅛	13¼	+¼
23⅝	17¼	ABM Ind	0.52	2.5	13	48	21¼	21	21⅛	+⅛
18	11⅛	Acptance			10	325	13⅝	13½	13⅝	-⅛
31	20¾	ACE Ltd	0.44	1.9	22	120	23	22¾	23	+⅝
12½	9	ACM Gvt In x	1.09	11.5	8	485	9⅝	9½	9½	[illegible]
10⅛	6⅞	ACM GvOpp x	0.80	11.0		139	7⅜	7⅛	7¼	+.87
10⅝	6¼	ACM Gvt Sp x	0.96	12.8		390	7½	7⅜	7½	[illegible]
12	7⅝	ACM Gvt Se x	1.08	12.5		464	8⅞	8¾	8¾	[illegible]
11¾	7⅜	ACM Man x	1.08	12.7		167	8⅝	8⅜	8½	+.98
9¼	6	ACM Mangd x	0.72	8.7		304	8¼	8¼	8¼	[illegible]
15½	8¾	AcmeClv	0.44	3.9	23	47	11½	11⅜	11⅜	-⅛
13⅞	6½	Acme Elect			13	180	13⅜	13	13	
29⅞	23	Acordia x	0.60	2.0	15	32	u29¾	29⅜	29½	+¼
13¾	5¾	Action	0.36	3.7	2	309	9⅞	9½	9⅝	+⅛
18⅞	11¼	Acuson			25	1026	15⅝	15½	15⅝	-⅝
18⅜	15½	Adams Expr	0.68	4.3	0	73	15⅞	15⅝	15⅞	+⅛
64	48½	Ad Micro x	3.00	5.6		21	54	53½	54	+½
31¾	16¾	AdvMic	3.00	11.9	8	5179	25⅛	24¾	25⅛	+⅛
6⅞	5	Advest Grp	0.16	3.0	15	8	5¼	5¼	5¼	
20	15	Advo Inc	0.10	0.6	16	1824	17⅝	17⅜	17⅝	-¼
64	49⅜	Aegon ADR	1.47	2.4	12	23	62¼	62	62¼	+⅜
65¾	42¼	AetnaL	2.76	6.1	6	890	45¼	44⅞	45	+⅛
36⅛	25¾	Aflac	0.46	1.4	12	396	33⅞	33⅝	33⅞	
22¾	15¾	Ahmnsn	0.88	5.5	9	1618	16½	15⅞	16	-⅜
4	1⅜	Aileen Inc			1	6	1⅝	1⅝	1⅝	-⅛
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4 pm close December 5

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close December 5

Price data supplied by Telekurs

AMEX COMPOSITE PRICES

4 pm close December 5

AMERICA

Falling bond prices fail to unnerve Dow

Wall Street

The US stock market posted gains yesterday morning, building upon last Friday's late rally in spite of early declines in bond prices, *writes Patrick Harverson in New York.*

By 1pm, the Dow Jones Industrial Average was up 10.76 at 3,756.38, having spent the morning in a relatively narrow range within 15 points of opening values. Secondary indices were mixed, with the Standard & Poor's 500 up 1.07 at 454.37, the American Stock Exchange composite down 0.13 at 448.57 and the Nasdaq composite 2.14 higher at 747.16. Trading volume was light at 145m shares by 1pm.

After Friday's surge, when the Dow jumped more than 40 points in the afternoon, the market opened with investors in a surprisingly upbeat mood. Last week's late gains were spurred by a sharp increase in bond prices, but the decline in bonds yesterday failed to unnerve the market, primarily because the quarter of a point fall in the 30-year Treasury was blamed on an instinctive correction following the previous session's advance.

Stocks were also supported yesterday by the dollar, which has risen against both the yen and the D-mark in the last few days. The currency did not add to its gains yesterday, but its recent appreciation is seen on Wall Street as a positive factor for stocks, because it may help restore the confidence of foreign investors in US equities.

A range of Dow issues achieved gains as buyers favoured cyclicals. General Electric rose $⅝ to $47⅝, Aluminum Company of America added $1¼ at $83½, International Paper firmed $⅝ to $71⅝ and Caterpillar rose $⅜ to $54½. Car stocks were firmer in anticipation of another strong set of sales figures. General Motors rose $⅝ to $39⅝, Chrysler added $⅝ at $49⅝ and Ford firmed $⅝ to $27⅝.

ICN Pharmaceuticals fell $1⅞ to $20⅝ after it said that, following advice from the Food and Drug Administration, it was amending its application for approval of its treatment for chronic hepatitis C.

On the Nasdaq, Figgie International climbed $⅝ to $7 on news that it had hired an investment bank to advise on "strategic alternatives" that could involve the sale of businesses or a recapitalisation.

Canada

Toronto was firmer at midday, pushed higher by base metals issues and forestry stocks, which were bolstered by a softer Canadian dollar, and strength in transportation shares.

The TSE 300 composite index added 17.43 to 4,110.42 by noon in volume of 22m shares.

Paper and forest products rose 1.9 per cent, as MacMillan Bloedel picked up C$⅛ to C$18, while Donohue class A moved C$⅜ higher to C$14⅞.

The financial services group was 1.2 per cent higher in response to healthy fourth quarter results. Royal Bank of Canada rose C$⅞ to C$29⅜ ahead of full year results today.

Brazil

Shares in São Paulo were down modestly in light midday trade in reaction to news that the central bank had increased minimum reserve requirements.

The Bovespa index was off 297 at 44,957 by 1pm in thin volume of R$90.9m ($106.5m).

Johannesburg golds weaken

Shares in South Africa were mixed as a weak bullion price depressed golds, but industrials firmed in line with gains on global equity markets.

The overall index shed 0.8 to 5,719.4, industrials were 32.9 better at 6,912.5 and golds lost 30.3 at 1,881.1.

De Beers gained R1 at R90, but Anglos slipped R1.50 to R228. Reflecting the soft sentiment among golds, Kloof fell R1 to R55.75 and Vaal Reefs R5 to R345. Platinum losses were limited, with Rusplats off 50 cents at R106.

Elsewhere, Remgro put on 50 cents at R28 and SAB improved 50 cents to R97.75.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1994	Start of 1994	Start of 1994
Austria	+0.80	-0.18	-7.08	-12.67	-9.21	-4.29
Belgium	+1.56	+2.84	-3.25	-7.48	-2.26	+3.04
Denmark	-0.71	+1.31	-5.39	-10.79	-6.77	-1.71
Finland	+0.75	-3.61	+24.64	+23.15	+38.36	+45.86
France	+1.57	+2.20	-6.97	-12.11	-9.07	-4.14
Germany	-0.41	-1.27	-5.77	-11.33	-7.44	-2.41
Ireland	-0.11	-1.27	+1.64	-1.70	+1.57	+7.08
Italy	+1.53	-0.64	+16.21	+2.67	+2.98	+8.56
Netherlands	+1.29	-0.73	+0.39	-4.14	+0.02	+5.44
Norway	+4.71	+4.90	+9.47	+3.08	+7.16	+12.97
Spain	-0.19	+2.62	-2.01	-7.69	-4.95	+0.21
Sweden	-0.54	+2.92	+12.26	+6.46	+11.82	+17.89
Switzerland	+0.01	+1.09	-5.84	-10.99	-5.77	-0.66
UK	-0.66	-2.60	-6.18	-11.56	-11.57	-6.77
EUROPE	+0.12	-0.57	-3.63	-9.20	-6.88	-1.82
Australia	-1.28	-4.71	-6.13	-11.45	-4.77	+0.40
Hong Kong	-5.57	-15.21	-13.14	-32.99	-36.53	-33.08
Japan	+2.30	-3.04	+3.33	+5.08	+10.79	+16.80
Malaysia	-3.93	-9.24	-2.37	-23.09	-23.18	-19.01
New Zealand	-2.81	-9.34	-1.78	-6.78	-0.38	+5.02
Singapore	-2.93	-9.35	+3.44	-10.66	-7.36	-2.33
Canada	+0.35	-2.00	-0.27	-2.04	-10.34	-5.48
USA	+0.15	-1.91	-1.68	-2.36	-7.39	-2.36
Mexico	+2.06	-1.77	+11.25	-3.73	-17.49	-13.01
South Africa	-2.45	-2.96	+34.79	+16.74	+15.56	+21.83
WORLD INDEX	+0.54	-2.41	-0.75	-3.43	-3.39	+1.86

† Based on December 2, 1994.

EUROPE

Bourses stage rally before bonds show weakness

Bourses rallied at the outset as they caught up with the renewed strength of the dollar against the D-Mark, and of Wall Street ahead of the weekend; but some of them, particularly France, were unable to withstand weakness in bonds later in the day, *writes Our Markets Staff.*

FRANKFURT held up quite well considering the afternoon weakness in bunds, and in bund futures. After a 32.61 or 1.6 per cent jump in the Dax index to 2,071.12 on the session, the Ibis indicated Dax closed 24.88 or 1.2 per cent higher at 2,067.26 after hours.

There was some popular support for banks ahead of their 10-month results, but the sector did not hold on to all of its gains in the afternoon; in fact, the high flyer in financials was the insurer, Allianz, up DM56 to DM2,496 at the end of the day. To Mr Adrian Phillips, who heads the German analysis team at Kleinwort Benson, this suggested that traders, rather than investors, were taking the initiative.

Carmakers did well, although there seemed a tendency to offer German industrials in sizeable lots: BMW put on DM10.30 at DM760.50, and Daimler DM13.90 at DM752.50; Volkswagen improved over the day, ending DM6 higher at DM422.50, after last week's 8 per cent drop which followed the release of disappointing 1995 profits targets in the group's latest five-year plan.

Turnover rose from around DM4bn to DM5bn. Other stocks stayed out of favour. Henkel, the chemicals group which owns the Persil brand name in Europe outside the UK and France, lost another DM5.20 to close at a new 1994 low of DM532.70, after a meeting nearly two weeks ago which has since led some analysts to revise their projections.

PARIS broke briefly through the 2,000 barrier in the CAC-40 index before losing momentum in the last hour of trading as profits were taken. The index ended the day 9.06 lower at 1,973.65, after a high of 2,003.19. Turnover was FFr3.6bn.

Last week the French market made a strong forward move, largely on technical activity, closing at its highest level for nearly three months. James Capel, in a technical analysis of the CAC-40, suggested that the current rally, which began around the start of November, was likely to meet resistance at 2,040. The broker's analysts Ms Deborah Boys and Mr Robin Griffiths remarked that the rally had been more broadly based than in other European bourses.

FT-SE Actuaries Share Indices

Dec 5							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1353.97	1354.89	1354.82	1355.58	1355.11	1354.78	1355.02	1353.74
FT-SE Eurotrack 200	1397.69	1398.08	1398.69	1400.45	1398.92	1398.54	1398.61	1398.40

	Dec 2	Dec 1	Nov 30	Nov 29	Nov 28
FT-SE Eurotrack 100	1342.92	1344.45	1341.95	1333.87	1329.82
FT-SE Eurotrack 200	1380.57	1382.94	1387.14	1388.44	1367.54

Base 1000 (26/10/90) High/day: 100 - 1356.83; 200 - 1401.05 Low/day: 100 - 1353.88 200 - 1397.41 † Partial

Corporate stories were sparse. Carrefour lost ground as profits were booked following recent strength, and the shares dipped FFr51 to FFr2,234. Elsewhere, some brokers suggested that funds were being switched from Total to Elf Aquitaine, as the former retreated FFr3.60 to FFr331.90 and the latter rose FFr5.70 to FFr387.40.

AMSTERDAM tracked strength elsewhere, and the AEX index moved forward 3.34 to 413.35.

Two issues stood out: Ahold, on good third-quarter results; and Pakhoed, as news of a French acquisition was well received.

The former, an international supermarket and retail group, saw a 25 per cent gain in earnings, helped by an improvement in trading conditions in the US, Portugal and the Netherlands. The company said that the results would have been even better had it not been for dollar weakness. The shares settled at the session's high of Fl 53.50, a gain of 70 cents.

Pakhoed, the oil and storage company, rose Fl 2.00 to Fl 46.70 as it announced that it was to take an immediate 66 per cent stake in Lambert Rivière, the French chemicals distributor, and to launch a public offer for the remaining stock early in the new year.

ZURICH looked to firm futures to support the cash market, and the SMI index rose 33.5 or 1.3 per cent to 2,611.0.

Hopes that bond markets would remain firm helped insurers, which are heavily invested in fixed rate bonds. Zurich rose SFr19 to SFr1,262, Swiss Re picked up SFr6 to SFr773 and Winterthur was SFr7 higher at SFr637.

Bearer shares in Berner, a medium sized insurer, rose SFr70 or 5.3 per cent to SFr1,390 amid renewed talk that Germany's Allianz, which already owns 30 per cent, might raise its stake.

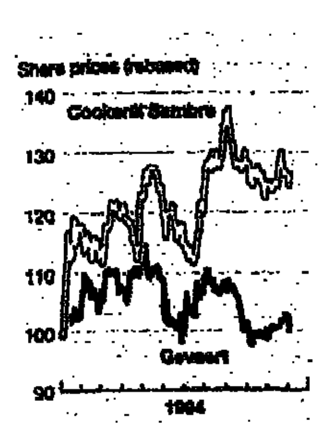
Roche certificates advanced SFr115 to SFr5,850: dealers noted that BZW had advised clients to take profits in Swedish Astra, and switch into Roche.

MILAN was unmoved by political developments and the Comit index eased 1.65 to 629.80 in very low volume of about L300bn, with the banking sector again providing one of the few areas of activity.

Credito Romagnolo rose L267 or 1.6 per cent to L17,429 in response to the improved offer of L20,000 a share from Credito Italiano for up to 65 per cent of the shares. Italiano firmed L7 to L1,633. Some analysts were doubtful about local newspaper speculation suggesting that Rolo might face a counter-bid from Cariplo.

Olivetti fell L36 or 1.9 per cent to L1,896 and Cir, its fellow De Benedetti group company, receded L35 to L1,786. Both are shareholders in Rolo, and the declines suggested disappointment that Italiano's bid had not matched early forecasts in the L21,000 to L23,000 range.

Ras moved ahead L376 or 2.5 per cent to L15,546 amid buying linked to its rights issue which is currently in progress.



Source: FT Graphite

BRUSSELS was more concerned with constituents of the Bel-20 than with the index itself, which gained a tame 4.61 at 1,413.63. The biggest rise of the day was in the steelmaker Cockerill Sambre, which ended BFr6 or 3.0 per cent higher at BFr203, not far short of its BFr215 peak for the year. On Friday, Cockerill will replace Gevaert in the Bel-20. Gevaert fell BFr48 or 3.2 per cent to BFr1,424 as investors dropped the holding company from their portfolios.

Written and edited by William Cochrane, John Pitt and Michael Morgan

ASIA PACIFIC

Taipei jumps 4.2 per cent in post-election celebration

Tokyo

An advancing dollar, topping Y100 for the first time since October 13, helped to jack up the Nikkei 225 by 307.36 to close at the day's high of 19,305.66, *writes Robert Patton in Tokyo.*

After two consecutive days of losses, the benchmark index sailed out of the doldrums at the opening, leaving a day's low of 19,067.01 to finish the morning session at 19,207.44. Most of that gain occurred in the first 15 minutes of trading. There was little market movement through most of the day until a final, arbitrage-led rally at the close.

Traders attributed the renewed strength of the market to futures-linked arbitrage buying, as dealers who had taken the short side in Chicago index futures markets on Friday bought shares in Tokyo to cut losses. The upturn was also supported by recent strength in US financial markets and the release of better than anticipated US employment figures on Friday.

The market turned up in estimated volume of 211m shares. The capital-weighted Nikkei 300 index rose 3.30 to 282.52 and the Topix index of all first-section stocks by 16.01 to 1,531.86. Winners topped losers by 837 to 187, with 169 issues unchanged. In London the ISE/Nikkei 50 index firmed 1.57 to 1,272.07.

Among computer game makers, Sega Industries extended its recovery to a seventh consecutive day, rising Y80 to Y5,210. Nintendo gained Y100 at Y5,800.

Sony, which entered the video game business last Friday with its advanced PlayStation, added Y100 at Y5,520, while Matsushita Electric Industrial advanced Y40 to Y1,580. Other consumer electronics stocks also rose, JVC by Y30 to Y1360, Sanyo Electric by Y6 to Y582 and Sharp by Y30 to Y1710.

Most integrated electricals did well. Mitsubishi Electric moved ahead Y10 to Y710 and Hitachi Y7 to Y985, while Toshiba climbed Y21 to Y731 in the day's third highest volume of 3.2m shares. NEC closed at Y1,190 for a Y30 advance, but Fujitsu stayed at Y1,020.

Carmakers joined the upsurge. Mitsubishi Motors rose Y11 to Y983, Nissan by Y13 to Y834 and Isuzu closed at Y492, up Y6. Following recent losses, privatised stocks were mostly higher. Japan Tobacco appreciated Y5,000 to Y960,000 and NTT Y7,000 to Y837,000.

In Osaka, the OSE average put on 160.11 at 21,275.3 in volume of 33.4m shares.

Roundup

Wall Street's strong performance on Friday provided inspiration for some regional markets. Bangkok was closed for a public holiday.

TAIPEI jumped 4.2 per cent as investors celebrated a victory by the ruling Nationalist party in key elections for governor on Saturday.

The weighted index ended 270.40 stronger at 6,750.22, off an opening high of 6,824.20. Turnover surged to a hectic T$103.8bn from Friday's T$54.76bn.

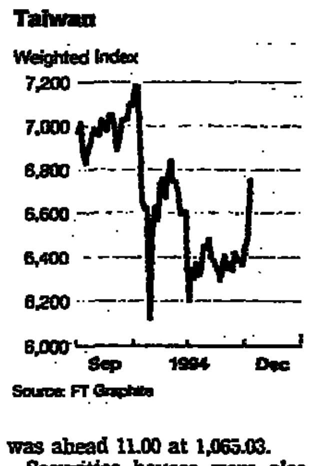
Plastics shares led the rally on good fudamentals and recent product price increases, with China Petrochemical and Taiwan Polypropylene both advancing by a daily 7 per cent limit to T$39 and T$76.50 respectively.

Electronics also raced ahead on strong earnings growth, with United Microelectronics and Acer each limit up to T$131.50 and T$102.50. The financial sector, which opened 6.5 per cent ahead, gave up some of the rise to finish 4.1 per cent up.

SYDNEY closed near its high for the day, the All Ordinaries index adding 17.4 or 0.9 per cent at 1,897.5, as a number of blue chip issues found support on the back of a better futures market.

SEOUL ended higher after an early technical rebound in blue chips, while buying interest remained strong in selective smaller-capitalisation shares with good corporate earnings prospects. The composite index

Taiwan



Source: FT Graphite

was ahead 11.00 at 1,065.03.

Securities houses were also in demand, on unfounded rumours that the government would allow brokerage houses with abundant cash reserve ratios to raise capital freely.

HONG KONG saw an early 1.0 per cent rally but was unable to make further headway in subsequent trade. The Hang Seng index, which dropped 5 per cent last week and was 34 per cent down from its January peak, moved up 80.96 to 8,302.53.

Turnover dwindled to a preliminary HK$2.7bn, compared with HK$4.2bn on Friday.

Brokers noted that rising US interest rates were making fixed interest investments increasingly attractive, contributing to redemptions of local stock investments.

China-incorporated shares led the market higher, with Tsingtao Brewery up 25 cents to HK$5.10 on buying after technical weakness.

HSBC Holdings rose 75 cents to HK$84.50, Hutchison Whampoa moved ahead 60 cents to HK$30.10 and Consolidated Electric Power advanced 60 cents to HK$15.50.

SINGAPORE was unable to hold on to early gains and the Straits Times Industrial index finished 3.45 easier at 2,185.57, with sentiment bruised by faltering Malaysian shares traded over the counter.

KUALA LUMPUR continued to fall, ending 1.4 per cent lower, as a fresh round of forced selling by clients unable to meet margin calls sent prices tumbling. The composite index shed 13.86 to 963.88.

WELLINGTON sank to its low for the year in early afternoon trade amid gloom over the outlook for higher interest rates, before prices picked up towards the close. The NZSE-40 fell to 1,932.69 and then rallied to close 3.20 down on the day at 1,939.36.

MANILA saw profit-taking after a firm opening before renewed, late buying by domestic and retail customers. The composite index finished 25.96 higher at 2,622.71.

Petron led the gains, advancing 75 cents or 3.9 per cent to 20 pesos.

BOMBAY encountered early retail selling before late demand for blue chips by domestic mutual funds reversed the slide.

The BSE-30 index picked up from a low of 4,034.49 to finish 6.74 ahead at 4,084.23.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. In conjunction with the Institute of Actuaries and the Faculty of Actuaries

FRIDAY DECEMBER 2 1994

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield
Australia (68)	167.54	-0.9	159.25	106.33	137.44	144.78	-1.1	3.97
Austria (16)	177.05	0.0	168.29	112.38	145.23	145.44	0.5	1.12
Belgium (35)	167.60	-0.1	159.30	106.36	137.48	134.16	0.4	4.12
Brazil (28)	165.79	-4.0	157.58	105.22	135.99	261.88	-3.2	0.79
Canada (103)	128.35	0.5	122.00	81.46	105.29	127.54	0.3	2.69
Denmark (33)	242.97	-0.7	230.94	154.20	199.30	203.81	-0.5	1.46
Finland (24)	179.70	-0.7	170.80	114.04	147.40	184.40	-0.3	0.76
France (102)	168.68	0.3	160.33	107.05	138.36	143.24	0.7	2.99
Germany (58)	136.86	-0.6	130.08	86.86	112.26	112.26	-0.3	1.84
Hong Kong (56)	327.43	-2.7	311.22	207.80	268.59	325.29	-2.6	3.81
Ireland (14)	198.33	-1.0	188.51	125.87	162.69	182.04	-0.7	3.50
Italy (59)	74.46	-0.6	70.78	47.26	61.08	90.03	-0.4	1.75
Japan (468)	151.99	-1.3	144.47	96.46	124.68	96.46	-0.2	0.80
Malaysia (97)	479.07	-1.9	455.36	304.04	392.98	472.03	-1.8	1.88
Mexico (18)	2076.97	-2.2	1974.12	1318.13	1703.69	7806.06	-2.3	1.31
Netherland (19)	209.94	0.1	199.55	133.24	172.21	169.19	0.4	3.41
New Zealand (14)	71.32	-1.9	67.79	45.27	58.51	60.09	-2.0	4.87
Norway (23)	202.94	1.5	192.89	128.79	166.47	189.02	1.9	1.75
Singapore (44)	358.98	-2.7	341.21	227.82	294.47	243.46	-2.2	1.76
South Africa (59)	325.48	0.8	309.36	206.56	266.99	292.42	-0.4	2.24
Spain (38)	139.64	0.2	132.73	88.62	114.55	139.27	0.5	4.10
Sweden (36)	231.50	-0.7	220.04	146.92	189.90	257.97	-0.8	1.55
Switzerland (47)	159.09	-0.2	151.22	100.97	130.50	131.23	-0.1	1.86
Thailand (46)	155.10	-2.9	147.43	98.44	127.23	150.92	-2.8	2.43
United Kingdom (204)	191.17	-1.2	181.71	121.33	156.82	181.71	-0.7	4.25
USA (513)	185.42	0.9	176.24	117.67	152.10	185.42	0.9	2.96
Americas (682)	173.35	0.8	164.77	110.02	142.20	144.16	0.8	2.88
Europe (708)	166.48	-0.6	158.24	105.66	136.56	149.88	-0.2	3.13
Nordic (116)	220.91	-0.6	209.97	140.20	181.21	210.59	-0.5	1.40
Pacific Basin (793)	159.66	-1.4	151.75	101.33	130.97	105.51	-0.5	1.18
Euro-Pacific (1501)	162.42	-1.0	154.38	103.08	133.23	123.01	-0.4	2.02
North America (616)	181.88	0.9	172.87	115.43	149.19	181.44	0.9	2.95
Europe Ex. UK (504)	149.50	-0.2	142.10	94.89	122.63	130.62	0.1	2.48
Pacific Ex. Japan (325)	235.81	-2.0	224.14	149.66	193.43	207.23	-2.0	3.22
World Ex. US (1709)	164.33	-1.0	156.19	104.29	134.79	126.63	-0.4	2.03
World Ex. UK (2018)	168.28	-0.2	159.95	106.80	138.04	141.02	0.1	2.15
World Ex. Japan (1754)	181.89	0.1	172.88	115.43	149.20	173.18	0.2	2.98
The World Index (2222)	170.31	-0.3	161.87	108.09	139.70	144.71	0.1	2.35

THURSDAY DECEMBER 1 1994 — DOLLAR INDEX

NATIONAL AND REGIONAL MARKETS	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (68)	168.99	159.87	106.12	138.13	146.31	189.15	153.99	153.99
Austria (16)	177.12	167.56	111.22	144.77	144.73	198.89	167.46	175.12
Belgium (35)	167.71	158.66	105.31	137.08	133.67	177.04	154.69	154.69
Brazil (28)	172.74	163.42	108.47	141.19	270.27	-	-	-
Canada (103)	127.67	120.78	80.17	104.35	127.13	145.31	120.54	132.76
Denmark (33)	244.76	231.55	153.69	200.06	204.79	275.79	233.01	233.01
Finland (24)	180.93	171.17	113.62	147.89	184.95	201.41	116.85	121.34
France (102)	168.20	159.12	105.62	137.48	142.22	185.37	159.34	165.40
Germany (58)	137.74	130.31	86.49	112.58	112.58	150.40	128.37	133.11
Hong Kong (56)	336.52	318.37	211.32	275.07	334.14	508.56	327.43	377.59
Ireland (14)	200.31	189.50	125.78	163.73	183.34	216.60	178.63	178.90
Italy (59)	74.91	70.87	47.04	61.23	90.39	97.78	60.17	60.17
Japan (468)	153.98	145.66	96.68	125.85	96.68	170.10	127.18	135.80
Malaysia (97)	488.09	461.76	306.50	398.96	480.57	621.83	430.71	490.77
Mexico (18)	2123.04	2008.47	1333.14	1735.30	7986.15	2647.08	1696.26	2068.23
Netherland (19)	209.71	198.40	131.69	171.42	168.46	223.30	191.26	191.42
New Zealand (14)	72.74	68.81	45.67	59.45	61.31	77.59	62.05	63.10
Norway (23)	199.96	189.17	125.56	163.44	185.59	211.74	168.11	170.24
Singapore (44)	369.02	349.11	231.72	301.63	249.04	401.38	294.66	319.42
South Africa (59)	323.01	305.58	202.83	264.01	293.69	342.00	205.55	223.31
Spain (38)	139.38	131.86	87.52	113.92	138.52	155.79	132.22	132.22
Sweden (36)	233.10	220.52	146.37	190.53	260.18	242.81	183.23	183.37
Switzerland (47)	159.35	150.76	100.06	130.24	131.34	176.58	149.91	150.22
Thailand (46)	159.67	151.05	100.26	130.51	155.23	-	-	-
United Kingdom (204)	193.48	183.04	121.50	158.15	183.04	214.96	181.11	183.66
USA (513)	183.74	173.83	115.38	150.18	183.74	198.04	178.95	166.59
Americas (682)	172.05	162.77	108.04	140.63	143.08	-	-	-
Europe (708)	167.42	158.38	105.13	136.84	150.19	178.56	159.95	159.95
Nordic (116)	222.14	210.15	139.49	181.57	211.65	233.91	179.06	179.13
Pacific Basin (793)	161.92	153.18	101.68	132.35	106.05	176.86	141.04	145.58
Euro-Pacific (1501)	164.12	155.26	103.06	134.15	123.48	176.14	150.97	151.40
North America (616)	180.28	170.53	113.19	147.34	179.84	192.73	175.67	185.12
Europe Ex. UK (504)	149.78	141.70	94.05	122.43	130.50	158.12	138.94	138.94
Pacific Ex. Japan (325)	240.62	227.84	151.10	196.68	211.38	296.21	232.59	239.16
World Ex. US (1709)	165.99	157.03	104.29	135.67	127.15	176.65	152.65	152.84
World Ex. UK (2018)	168.69	159.58	105.93	137.88	140.83	178.59	160.94	160.94
World Ex. Japan (1754)	181.79	171.98	114.15	148.59	172.89	195.20	176.34	180.16
The World Index (2222)	170.86	161.66	107.30	139.67	144.84	180.80	163.80	163.80

Latest prices were unavailable for this edition.

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